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Current Shape of 'Peaceful Evolution' Assessed

91CM0260A Chengdu MAO ZEDONG SIXIANG
YANJIU [STUDIES IN MAO ZEDONG THOUGHT]
in Chinese No 4, 1990 pp 61-65

[Article by Li Shenglu (2621 5116 4389) of the Sichuan Provincial College of Social Sciences: "An Analysis of the West's 'Peaceful Evolution' Strategy"]

[Text] Peace and growth are the mother current of contemporary development, but in the world that follows in its wake, there is an undercurrent called "peaceful evolution." "Peaceful evolution" ebbs and flows, comes and goes, so that the international scene is as changeable as a kaleidoscope, bedazzling everybody and tricking some into seeing illusions and letting down their guard.

"Moderation and coexistence" and "peaceful evolution" are two basic strategies that Western capitalist countries have been using on the socialist countries. As the international situation changes and as the socialist countries implement reform and open up to the world, the Western capitalist nations change their strategy and moderate, resume, and develop their relations with the socialist countries and put their so called "coexistence" and "competition" to work. Thus, "peaceful evolution," the twin brother of "peaceful competition," heads straight for the socialist countries. Not only is there no need for the West to use military force to open the doors, but after they get in, there is no "street fighting"; instead, they use all kinds of "peaceful" psychological warfare and try to quietly slip the socialist political, economic, ideological, cultural, and conceptual spheres onto the capitalist track, hoping that no one will notice their conspiracy or discover that the final answer to their "peace" riddle really lies in this kind of "evolution." Thus, how to analyze carefully the West's "peaceful evolution" strategy under the conditions of peace and development and to expose and destroy their plot has become an urgent and important issue.

I. "Peaceful Evolution" and Counter-"Peaceful Evolution" Are the Main Form of Struggle Between Two Social Systems as the World Situation Eases

Since the emergence of the world's first socialist country there has been diametrical confrontation and struggle between socialism and capitalism. After the failure of the capitalist countries' conspiracy to isolate the socialist countries politically, impose economic sanctions, engage in armed intervention, and even launch aggression and war, they changed their strategy and tried every way to effect "peaceful evolution" in the socialist countries. Thus, "peaceful evolution" and counter-"peaceful evolution" became the primary form of struggle between the capitalist and socialist systems and ideologies and the manifestation of an international class struggle. This kind of struggle is still on-going today. In the process, the Western capitalist countries have racked their brains and have experimented with their "liberation policy," "contact evolution," "strategy of containment," and other

tactics of "peaceful evolution." Today, they have come out with the "big collapse," "victory without war," and "super containment," and other new "peaceful evolution" gimmicks. Looking back at the last several decades, the Western capitalist countries' "peaceful evolution" has emphasized the following points: 1) They have vigorously promoted capitalism and attacked socialism, embellished capitalism and vilified socialism, and have painted the socialist countries as a darkened mess. 2) They have put their hopes on the so-called democratic liberals of socialist countries, vigorously supported those who "hold different political views" and the opposition factions, and have even played an active part in and have instigated disturbances and rebellions. 3) By improving, resuming, and developing "relations" with the socialist countries, they have pushed their "peaceful evolution" through various "relationship" channels. 4) The fundamental goal of "peaceful evolution" is to restore capitalism in the socialist countries and restore the world to its pre-1917 form and create one world under the capitalist rule. 5) In effecting "peaceful evolution" and promoting "democracy" and "freedom" in the socialist countries, the United States has always played the lead role. In the "peaceful evolution" war concocted by the West, there is a common theme, and that is "peace" is the form and "evolution" is the substance; "peace" is the means and "evolution" is the goal; "peace" serves "evolution." Thus, compared to imperialism's strategy of armed subversion, "peaceful evolution" is more wicked, more cunning, and more expedient, and therefore we should be more vigilant.

The West began to direct its "peaceful evolution" strategy at the socialist countries in the early 1950's. The spokesmen were then U.S. President Eisenhower and Secretary of States Dulles. The infamous "Dulles" policy was the theoretical basis for the strategy of "peaceful evolution," and the name "Dulles" became synonymous with "peaceful evolution." Over a period of several decades, the West's "peaceful evolution" has gone through several stages: The first stage began in the mid-1950's when the West changed its policy and began to launch the "peaceful evolution" strategy. At that time, the spearhead of struggle was pointed at Eastern Europe. The 1960's marked the second stage, when the West's "peaceful evolution" strategy gradually unfolded, but the emphasis remained in Eastern Europe. The 1970's marked the third stage, during which the U.S. Government actively readjusted the deployment of its "peaceful evolution" strategy and seized the opportunity of the forging of Sino-U.S. diplomatic relations and, without giving up on Eastern Europe, shifted its emphasis to Asia, "aiming the bow to the left and the right"—targeting both Europe and Asia at the same time. The 1980's marked the fourth stage, when the Western capitalist countries took advantage of the socialist countries' economic difficulties and their reform and opening up to step up the execution of their "peaceful evolution" strategy. It was their opinion that the time had come to launch a "revolution to bring the glorious hope of world peace and human freedom beyond the borders of the

United States." They thought that the freedom and democracy of the United States "could be repeated a hundred times in a hundred different countries." It was during this period that China was swept by one serious wave after another of bourgeois liberalization, culminating in the disturbance and rebellion between spring and summer of last year. At the same time, there was great turmoil all over Eastern Europe, allowing the "peaceful evolution" strategy to "score points" in some countries and to succeed in varying degrees. In view of current developments, it is even more important that we stay cool and calm and keep watch.

The reason the West's capitalist "peaceful evolution" strategy has undergone the above development and change is closely tied to developments on the international scene, especially the rise and fall of the two social systems relative to each other. After World War II and up to the mid-1950's, most capitalist countries were still in the process of rebuilding their own countries and recovering from the war, and soon thereafter they were confronted with nationalist liberation movements in Asia, Africa, and Latin America. During that period, except for the United States, the capitalist world was generally on the decline and steeped in depression. Most countries could not even take care of themselves. Thus, to bring "peacefully evolution" to the socialist countries was something they could only wish for but were unable to achieve—the spirit was willing, but the flesh was weak. In contrast with the capitalist countries, the socialist countries were flourishing. The Soviet Union's mainstay role in the war against fascism had won it the trust of people all over the world. Many countries in Eastern Europe and Asia landed on the socialist path and made great strides. In particular, China's victorious revolution and its completion of the First Five-Year Plan ahead of schedule had a great effect on the rest of the world. In the contention and struggle between the two social systems, preliminary results showed that the socialist system was superior and that the situation was favorable to socialist development. At that time, the only country capable of striking up the "peaceful evolution" tune was the United States.

Since the late-1950's, socialist countries have undergone a series of changes. In the Soviet Union, Stalin's serious mistakes were exposed, which shocked the whole world, and that country subsequently embarked on the road of foreign expansionism. The split between the Soviet Union and China marked the beginning of a series of conflicts among the socialist countries themselves. Economic development stalled, and some countries even faced economic crises. There were also some distortions and mistakes in China's socialist practices, especially with the outbreak of the Cultural Revolution. These events seriously damaged socialism's image. On the other hand, the economic development of the Western capitalist countries, especially some developed countries, remained fairly steady, and they saw considerable growth toward the end of the 1970's, and subsequently they even brought down the inflation rate and continued

their steady economic growth. Although such relative stability and growth were able to conceal many deep conflicts and antagonisms, they did not and could not resolve the many fundamental contradictions inherent in capitalist countries, but they did for some time and to some extent ease the social conflicts and to a certain degree turned the situation around to favor capitalism instead.

In order to review their experiences and lessons and to continuously perfect the socialist system, one after another, the socialist countries have implemented reform and opening up. The tidal wave of reform swept almost every socialist country in the 1980's and made great strides in some. But, because socialist reform is a very complicated and arduous undertaking that involves the whole social system, it is inevitable and even normal that we will encounter some conflicts, confrontations, distortions, mistakes, and even social unrest during reform. These can be resolved in practice through a self-regulated process. But some Western countries are gloating over what they see as our misfortune, thinking that "socialist countries are in a complete crisis situation" and "communism has failed." They blatantly claim that "the 45-year-old goal of destroying Marxism is at hand," "we must take firm action and launch an attack," and "we should not be timid any more." A British economics journal put it even more bluntly: "The Soviet Union wanted Eastern Europe to achieve socialism through different paths, but we want Eastern Europe to abandon socialism in different ways." Thus, having directed its "peaceful evolution" at the socialist countries for several decades, the West's "peaceful evolution" goal has become even more concrete in recent years. First, the time frame has become more specific. In the past, they thought it would take "several generations of hard work" to put the socialist countries through "peaceful evolution." In particular, they had "put their hopes on the next several generations." Now, some key Western politicians believe that the struggle between capitalism and socialism will be "over without a fight" by 1999 and that the birth and demise of communism will be events of the 20th century. Thus, in the next 10 years, a very complicated and intense situation will emerge in the struggle between "peaceful evolution" and counter-"peaceful evolution." Second, the evolutionary process has become clearer. In the past, there was a goal, but it was unclear how they would begin to effect this evolution in the face of the huge socialist camp. Today, there seems to be a program that sets some kind of priority. Although the West's "peaceful evolution" is directed to the left and right and aims at Eastern Europe and Asia at the same time, Eastern Europe remains the main target and the points of penetration are Poland and Hungary. They want to break through Poland and Hungary to "neutralize" and "Finlandize" the rest of Eastern Europe and then "evolutionize" the Soviet Union and China and other socialist countries, either at the same time or immediately afterward, and eventually they want to put all the socialist countries onto the capitalist track. Third, the nature of the socialist countries' evolution has

been clarified. In the past, whenever the West talked about "peaceful evolution," it referred generally to overthrowing the communist leaders and changing the socialist system. In recent years, "evolution" has come to mean something more specific: politically, it is pluralization, a multiparty system, and the tripartition of the power of government; economically, it is privatization and a market economy; ideologically, it is liberalization and the realization of bourgeois "democracy," "freedom," "human rights," "values," and lifestyle. Just as Deng Xiaoping pointed out, "The imperialist Western world is trying to make the socialist countries abandon the way of socialism, eventually to be put under the rule of international monopoly capitalism and onto the capitalist track."¹

II. China Is the Biggest Obstacle to the West's "Peaceful Evolution" Strategy and Is Its Main Target

Back in 1949, when criticizing the U.S. White Paper, Mao Zedong pointed out that, "The target of the U.S. policy of aggression can be divided into several parts. Europe, Asia, and the Americas are the three main parts. China is the heart of Asia. It is a large country with a population of 475 million people. Whoever captures China captures the whole of Asia. After U.S. imperialism's Asian front has been consolidated, it will concentrate its forces on attacking Europe. This is the kind of wishful thinking of the U.S. aggressor."² When the Chinese people's revolution was about to seize victory, the United States incited and encouraged the Chinese democratic individualists, hoping they would "distinguish themselves again" and stage a coup from within. This was "peaceful evolution" in its embryonic form. Before this strategy was directed at any other socialist country, it was directed at China. Mao Zedong hit the nail in the head when he pointed out that the essence of what the United States was doing was to "overthrow Marxism-Leninism and overthrow China's system of people's democratic dictatorship under the leadership of the Communist Party."³ After the founding of New China, Dulles put his hope for "peaceful evolution" on members of the Chinese Communist Party, on the third and fourth generation of Chinese people. His wishful thinking was that when the Chinese young people became better educated, they would "see through the absurdity of communism" and "inevitably change the nature of the communist regime." In the 1970's, China recovered its rightful seat in the United Nations and grew in international prestige; meanwhile, the United States and Soviet Union confronted each other, and the "peaceful evolution" strategy made little headway in Europe, so the West readjusted the deployment of its "peaceful evolution" strategy and, without easing up on Eastern Europe, shifted the focus to China. In 1972, China and the United States established diplomatic relations, which no doubt was of great importance in the history of the Sino-U.S. relationship. But so far as the U.S. Government was concerned, resuming and developing its relations with China had its many strategic considerations. Besides the need to play its "China card"

in its political contest with the Soviet Union, economically, it needed China's huge market, and, on top of that, there was another strategic goal, namely, it hoped to influence China through various channels and effect "peaceful evolution." In the early days after establishment of Sino-U.S. relations, some U.S. public figures were of the opinion that, with the forging of Sino-U.S. relationship, the opportunity had come to make the Chinese accept Western influences and Western values, that the United States not only should transfer its technological know-how to China but also attach to it the ideas of human rights and individualism. The U.S. VIP who opened the doors to Sino-U.S. relations was very explicit about the original intentions of "moderation": "Moderation of the tense East-West relationship would lead to further disintegration in the East," and "a tense situation would solidify dictatorship, but easing the tense situation would weaken dictatorship." He told his Western partners that "no one can deny that our policy of moderation in the 1970's has radically shaken the basic principles of communist regimes." During that period of several decades, it was because of Mao Zedong and the older generation of Chinese proletariat revolutionaries who continuously exposed the West's "peaceful evolution" plot against China, who taught the Chinese people to be vigilant, and who took many positive measures that kept the Western imperialist "peaceful evolution" plot from succeeding in China.

China's reform and opening up put us on the road to becoming a powerful nation, and, if we stay on this correct road, China will surely become a rich and civilized socialist country. But some Westerners who are hostile to the Chinese people have seized upon our reform and opening up as an opportunity for their "peaceful evolution" strategy. As early as 1981 an internal document of the U.S. International Exchange Agency suggested that "China's policy of opening up to the outside world offers us the best opportunity since it stopped accepting Western influence and Western values back in 1949. We must make use of all our ideological influences and carefully select those that can best interfere with future prospects, produce long-term results, and obtain the most feedback as the focal point of exchange and launch our ideological infiltration activities." West Germany's Ministry of Internal Affairs has also prepared a directory of Chinese citizens residing temporarily in West Germany and has distributed the list to units with relevant foreign contacts. This "directory" outlines the kind of propaganda to be directed at those Chinese residents: 1) To disseminate West German democracy and Western culture and political values so that they will come under the influence of those West German values. 2) To give equal importance to the dissemination of West Germany's idea of freedom and pluralistic democracy as the dissemination of professional knowledge. Enemy forces in Taiwan and Hong Kong are also actively coordinating with the West's "peaceful evolution" strategy and are taking advantage of the improved relationship between the two shores of the strait to infiltrate the mainland. They peddle the

so-called "Taiwan experience," with its core of economic liberalization and political democratization, and they hope to effect and promote "peaceful evolution" in the mainland so that their plot to overthrow the Chinese Communist Party and overturn the socialist system can succeed.

The West's "peaceful evolution" strategy toward China has produced some very adverse effects. A handful of stubborn bourgeois individualists have become insiders who lend strength to the imperialist "peaceful evolution." They cater to the West's "peaceful evolution" needs and oppose the four basic principles, setting off vicious waves of bourgeois liberalization thoughts and causing serious ideological and theoretical confusions and laying the ideological foundation for the disturbance and rebellion that broke out between spring and summer of last year. That round of disturbance and rebellion was the centralized reflection of "peaceful evolution" and was the most serious challenge since the founding of New China. The Chinese Communist Party and the Chinese people curbed the disturbance and put down the counter-revolutionary rebellion. We not only cracked down hard on the arrogance of those who promoted bourgeois liberalism at home but also struck a hard blow on the international imperialist powers' "peaceful evolution" strategy. China's victory in curbing the disturbance and putting down the rebellious struggle disappointed many monopoly capitalists. They felt that, for the second time since Leighton Stuart fled China in panic in 1949, they have lost China again. Their "peaceful evolution" plot in China has fallen through once again.

The West and the enemy forces at home and abroad always try every means to overthrow the Chinese Communist Party's leadership and the Chinese socialist system, and, even though their fond dreams have been broken again and again, they still will not give up. After their disastrous defeat last year, they still proclaim their intention to launch a so-called "second round of attacks" against China and have come up with a "double resonance" strategy that combines psychological warfare with terrorist activities. But all these are destined to fail. Just as Comrade Deng Xiaoping pointed out, "They are not that smart." In the new situation, so long as we remain sober-minded and carefully study the laws and characteristics of "peaceful evolution" and counter-"peaceful evolution" in the new situation of peaceful development and get to know and guard against the West's "peaceful evolution" strategy in a rational way, and so long as we make good use of the situation of peaceful coexistence and peaceful competition and strive to develop society's productive forces, strive to strengthen ourselves, and strive to make our economy prosperous, we will be laying a solid material foundation for crushing the "peaceful evolution" plot. So long as we uphold the party's basic line, strengthen the party and the socialist democratic and legal systems, and maintain close ties to the people, we will be able to achieve long-term peace and security at home and become a prosperous and strong nation. China's socialist great wall

will not be destroyed by the enemy's airplanes and artillery nor by their sugar-coated bombs. The West's "peaceful evolution" plot in China will be but a pipe dream.

Footnotes

1. "Deng Xiaoping's Speech at a Reception for Cadres of the Capital's Curfew Enforcement Troops at Army Level and Above." See *In Defense of the Socialist Republic*, Long March Publishing House, 1989 edition, p. 6.
2. *Selected Works of Mao Zedong*, Volume 1, pp. 1,380-1,381.
3. *Ibid.*, Volume 1, p. 1,377.

Wan Runnan Discusses FDC Organization, Goals

91CM0137A Hong Kong CHENG MING
[CONTENDING] in Chinese No 158, 1 Dec 90 pp 54-56

[Article by Jian Wen (0494 2429) and Bei Di (0554 3695): "Wan Runnan Talks About FDC's Work on the Mainland—The Most Important to the FDC Are Self-Improvement and Mainland Work"]

[Text] On 20 October 1990 Bei Di [0554 3695], hostess of the "Echoes of the 4 June Incident" program of the Chinese radio station in Paris, interviewed Wan Runnan, new chairman of the Front for Democracy in China. Presented here is a summary of the interview.

New Board's Quality Is Higher Than Previous One

Bei: Some people say that, compared to the previous board, the new FDC [Federation for Democracy in China] board has a lower quality and is less well-known. I think that it is unfair to use degree of popularity as a measure. If we want to talk about degree of popularity, we should first see in what field they are popular. For instance, Su Xiaokang [5685 2556 1660] and Yuan Zhiming [6678 1807 2494] are writers. There is no direct ratio between the degree of their popularity and their political skills.

Wan: Compared to the last board, the new board is more representative. Its popularity is indeed lower, but its quality is higher. A board is supposed to reflect the demands of the members of its organization. It should be capable in regard to legislation, direction, and decision-making. The first board of directors, especially board members elected by the mainland group, basically can be called "a council of celebrities." These people do have some influence in certain fields, but they do not understand very well and are not very interested in the nature of the democratic system, especially when it concerns operations.

Bei: A certain Hong Kong magazine mentioned (in its October issue) that Zhu Jiaming [2612 0857 2494] himself did not realize that, by running in this election, he fell into the trap carefully set by key figures of Wan's supporters.

Wan: I saw this report and I felt that, like many other reports about the democracy movement, it was a well-concocted story. A Western politician had a brilliant remark. He said that spreading rumors is a part of human nature, and this nature is often used to spread rumors with a purpose. That Mr. Zhu Jiaming could stand out quietly and base himself in action is a very important fact in itself. It shows that quite a few intellectuals do not consider what benefits them the most, but consider what benefits the entire democracy movement and the future of our country.

"Zhu Jiaming Is an Outstanding Man"

Bei: As the chairman of the board, Mr. Zhu Jiaming has a restrictive and cooperative relation to you. Have you ever talked to him about how to carry out concrete cooperation? Could you talk about your personal impression of him as an cooperator and rival in this election?

Wan: Zhu Jiaming is an outstanding man. He did a great deal of work in the 10 years of reform, especially in research on the theory and policy of rural reform. He is one of the first reform researchers and designers who communicated with me. Shortly after establishment of the Sitong enterprise, Zhu Jiaming, who was an official of the Henan Provincial Commission on Structural Reform, and Hua Jianan [7806 1367 0589], who was an official of the Henan Provincial Economic and Foreign Trade Commission, came to see me. They saw at the time the future of civilian enterprises like Sitong and their positive significance for China's economic development. They volunteered to communicate with me and prepared to cooperate from the angle of policy study. For various reasons, the cooperation was not carried out further at home at the time. Little did I know that, after the 4 June incident, especially after the second session of the FDC started, there was such a new chance of cooperation. I believe it will be successful. Zhu Jiaming ran for the FDC chairman and then was elected as the chairman of the board of the FDC. Everybody who knows the situation thinks that we can cooperate very well. At the end of this month, Zhu Jiaming will make a special trip to Paris, and we will carry out further discussions on the next stage of the FDC's work plan, budget, and major issues. We will have a good start. Of course, as far as the checks and balances of power are concerned, there will be an aspect of cooperation as well as restriction. We must understand that such checks and balances are not internal struggles. Struggles are not restrictions. As far as the board of directors is concerned, the conditions are that 1) it should uphold what is in the constitution; 2) it should uphold guiding principles, namely, those that are in the policy white paper; and 3) it should be able to represent the interests of all branches and districts.

"Restriction Is Not the Objective"

Restriction is not the objective. Restrictions are made in order to do a good job. If we can do a good job, it means that restrictions have played a role. In the course of

learning democracy, we tend to have an one-sided view, thinking that democracy is to restrict the other party instead of considering how to get things done. In this way, we will lose our basis. People who have freed themselves from the cage of autocracy have reason to be on guard against power and demand for actual restrictions because the Communist Party eliminated all restrictions under the excuse of getting things done. We must resolutely avoid the phenomenon in which one party and one man dominates. But under a democratic system, we want restrictions and we also want to get things done. How to handle well these two relations is the same as how to adopt a more mature mentality.

The Situation of the FDC's Secretariat

Bei: Now people are more interested in the candidates for the new secretariat and the organization of your cabinet. You have said that reducing the number from 15 to 7 people can cut the expenses and space by half. In sum, how did you plan the new secretariat and could you talk about it in detail?

Wan: As far as organization is concerned, it can be divided into four parts. External relations such as foreign affairs, press, and contacts with various political organizations are taken care of by Mr. Chen Lichuan [7115 0500 1557]. Internal relations such as contacts with all board members, advisers, branches, and members are taken care of by a student from Belgium. The former is in charge of external affairs and the latter, internal affairs; this forms the office of the FDC headquarters which conducts day-to-day administrative work. The second part is the magazine, which controls publicity. It already has a foundation. How to run the new magazine office—maintain the previous situation or adopt a new layout—must be decided in the legislation of the board. The third part is research. Everybody knows that in the current stage we need to study the issues to prepare for counter-measures and gather talented people. This is a very important task. The role of research needs to be strengthened. The fourth part is even more important. It is the work on the mainland. Everybody thinks that the mainland work was inadequate in the past and needs to be strengthened.

The office of the headquarters conducts day-to-day administrative work to maintain the symbol of the FDC banner. It is also a base. Other things will be done basically according to the amount of funds and our ability. In this way, the FDC is able to continue to uphold the banner with minimum expenses. As for things like winning the support of international society and Overseas Chinese, we will do as much work as our funds permit and we will try to do as much as possible. A very important thing is that we should not worry that there will be too many people because it is not necessarily bad. The more people we have, the more work we will be able to do. The more money we spend, the more work we will be able to do. The key is how we spend the money. It is a good thing if we can spend all our money

where it is most needed, on the mainland work, propaganda, the mobilization of international society and the gathering of talented people.

PRC Embassy in France Sabotages Mainland Work

Bei: I agree with your last sentence. I have a feeling that the FDC's work last year emphasized the significance of the mainland work on the one hand and ignored the importance of the work of mobilizing and organizing Overseas Chinese and students abroad on the other. But how is the work on the mainland? Now everyone is talking about figures. That is, the FDC's total operating expenses for the whole of last year were \$1.04 million. But only \$4,500 was spent on mainland work, less than 0.005 percent of total expenses. Of course, we can find an explanation and say that it is almost impossible to do work on the mainland at present. If it is impossible to do work on the mainland at present, then where was the fund used?

Wan: Mainland work is a general concept. Saying that the cost of mainland work is over \$4,000 is not a very accurate way of putting it. Mainland work refers to the activities carried out by the mainland policy committee, which studies mainland policies. The then board of directors was divided into the foreign policy committee and the mainland policy committee. This money was used by the board of directors on the study of mainland policies. Then how much fund was really used on the mainland? This is impossible to answer openly. Recently I understood that Zhou Jue [0719 6030], the PRC ambassador to France, commended himself on four achievements before he left the office. He cited four achievements. Two of them are related to the FDC. One is that he obstructed the FAX war. The other is that he sabotaged the Goddess of Democracy ship. This shows that these two things have great influence on the mainland work. There are other aspects to this work, but they cannot be explained openly. But it is wrong to think that the money we spent on the study of mainland policies is the only money we spent on mainland work.

Now people are concerned about the distribution of funds in the work of the FDC. We use about 25 percent on the development of our organization, about 30 percent on mainland work, about 20 percent on research, and the rest on the mobilization of the international community and Overseas Chinese and academic circles abroad. Of course, distribution of budget funds requires the final approval of the board. Now we have only proposed a first draft. No matter what, the work in these four areas is carried out simultaneously.

With regard to mainland work, we should organize a special committee for mainland work. All areas should establish mainland work groups and build a contingent of mainland work. In my opinion, the most important tasks are 1) self-improvement, and 2) the mainland work. If our self-improvement fails, we will lose our basis. If our mainland work is weak, we will lose our root and our basic goal and direction.

Unfold Mainland Work in Four Areas

The mainland work includes four aspects: First, we should mobilize the international community to show concern for and provide assistance to those political prisoners and democracy movement activists who were imprisoned because of the 4 June incident, including of course the democracy movement activists who have been locked up since the Xidan Democracy Wall. We should call on the international community, make known the prisoners' conditions, and try vigorously to rescue them. Second, we should try to provide moral support and material assistance to the families of such prisoners and the families of the victims of the 4 June incident because they are now suffering from economic, mental, and material problems. Third, we should try to contact, support, and cooperate with organized opposition forces inside Mainland China including open and underground democracy movement organizations. Fourth, we should use all means to transmit information to the mainland to let the people understand what is happening in China and in international society.

Research Work Covers Three Areas

Research work includes mainly three aspects: First, we need to express our opinions and views on the basic issues now facing China and guide the direction of domestic policies, which requires that we come up with our own policies. Second, we should also study the issue of the self-construction of our democratic system from different angles. Third, we should study the issues that will face China once the domestic situation changes.

Some people have questioned the amount of the monthly salary of the new FDC chairman and six other workers? My answer is that Mr. Xu Xike [6079 1835 0668] and I started working full-time as soon as we were elected. The wage standard for our seven people was determined by the board of directors. The board used two standards: The first is the standard of the last board. The other is the wage standards of democracy movement organizations in the United States, such as the Independent Federation of Chinese Students and Scholars in the United States and the Alliance for Democracy. In a certain sense, it should be enough to live on because everyone knows that if we wanted to make money, we would not have come to work here. Of course, in order to concentrate on our work, we must have a basic living condition. Therefore, these seven people's wages are paid by the FDC, and all others are volunteers. There are three standards: The chairman and vice chairman get about \$1,600, department officials get about \$1,400, and general employees get about \$1,200. Members of the last secretariat volunteered to cut 1,000 francs each from their own salary. This is our current scale.

CPC Finds It Difficult To Retire Old Cadres

91CM0272B Hong Kong CHENG MING
[CONTENDING] in Chinese No 1, 1 Jan 91 p 30

[Article by Li Jianzhuang (2621 0256 1104): "Reducing Age of Cadre Force Is Extremely Difficult"]

[Text] Early on, the CPC had said it would make its cadre force younger. But at the top level, 70- and 80-year-old seniors are holding on to their power with no thought of retirement, which in turn, sets an example for those on the next echelon below who also cling to their special privileges. According to the CPC's present cadre setup and the prevailing socialist moral code, once a cadre retires, regardless of the power he wields while active, he loses everything. As a result, the feeling against retirement is great.

Anger Greatest Among Old Cadres in Central Government Organizations

To implement the policy of converting to a younger cadre force, the CPC already has a built-in ironclad rule that cadre leaders, regardless of grade or seniority should, in principle, initiate retirement procedures upon reaching retirement age. This policy was brought up by Jiang Zemin several times recently within the party, but great resistance was encountered. Those cadres at department and bureau levels in ministries and commissions under the Central Committee and the State Council were particularly angered, as many of them were hoping for promotion to minister or deputy minister before thinking of retirement. The reason is that retirement benefits are different once they attain the grade of deputy minister.

Political Participation of Democratic Factions Hard To Implement

According to reliable sources, CPC secretary Jiang Zemin had definitely hoped to include democratic faction figures to participate in politics. But great resistance was also met, since such a move would displace some Communist Party members, depriving them of their jobs. Those objecting put forth high-sounding reasons such as "the leadership of the Communist Party will be weakened, and it would be nigh impossible to maintain the four basic principles."

Besides objections emitting from the Central Committee, such opinions were also found to prevail on the provincial, municipal, and local district levels. Some provincial leaders used all kinds of excuses in their objections, with some asking the central government to send someone, and others saying they did not have any qualified democratic faction candidates in their midst, all to forestall the policy of converting to a younger cadre force.

Inner Mongolia Already an Independent Kingdom

It is rumored that Inner Mongolia is the region most resistant to the policy of converting to a younger cadre

force. The technique the Mongolians most often used was to object to the central government sending more Chinese cadres out to them. The Inner Mongolia Autonomous Region has actually become an independent kingdom where all important party, government, military, legislative, investigative, labor, youth and women's organizations are controlled by the Wulantu [3527 5695 1133] family. Buhe, the chairman of the autonomous region, is Wulantu's son. Originally, the central government had intended to transfer Buhe to serve as a deputy committee chairman at the National People's Congress in Beijing, but Buhe refused to go. Even though the minority problem in Inner Mongolia is not like that in Xinjiang and Tibet, Wulantu's shadow has a tight grip on Inner Mongolia, and the CPC has no way of wresting control from him. Jiang Zemin had gone there personally to check on the situation, and found enormous problems. As a result, he was only able to say, "We will talk about the problem of Inner Mongolia at a later time."

Not only was it impossible to transfer any cadres in administrative positions, it was equally difficult to command cadres in the military. For example, stationing the People's Liberation Army in major provincial and city locations is not a problem basically, for once the Military Commission issues an order it is done. But it does not work this way in Inner Mongolia. Even sending a company of soldiers requires informing Buhe and the autonomous region's party committee. At other provincial capitals, field operation troops are assigned, but at Hohhot it is different. The head of the garrison and military command at Hohhot is Qingzhi [8045 0001 5331], who is controlled by the Wulantu family. This is a big headache for the CPC.

Li Ruihuan Seen Secure Despite Conservative Pressure

91CM0294A Hong Kong MING PAO YUE KAN
[MING PAO MONTHLY] in Chinese No 1,
Jan 91 pp 29-31

[Article by Ting Kuo (0002 2564): "Review of Li Ruihuan's Recent Situation"]

[Text] Someone recently said that the conservative forces in the CPC are trying hard to get Deng Liqun to make a reappearance and to replace Li Ruihuan, adding that this has become a common understanding of certain political elders. This writer thinks that people abroad who comment on Chinese issues have always shown a great deal of interest in the number-one figure in charge of the Chinese Communists' ideological domain, and that this interest is not cause for much criticism. But these commentators seem to lack the ability to make simple, straightforward comments about Mr. Li's expression of political views, his whereabouts, and his situation.

No Worry About Mr. Li's Position in Short Term

Even if the word is being spread through all sorts of grapevines that Li Ruihuan's political position has

changed, this writer still believes that there will be no fundamental change for him. There are three reasons for my belief:

First, after the 4 June incident Li Ruihuan became one of the six "chief ministers" in Jiang Zemin's system. If he were to lose his position, this would indicate the imminent collapse of this system. From a look at the present situation, it can be seen that this system will continue in existence at least until after the plenary session of the party Central Committee is held and until the holding of next summer's Beidaihe conference. On 30 March 1990, when receiving a delegation visiting China led by Yoshio Sakurachi, speaker of the Japanese House of Representatives and director of the Japanese Association for Promotion of International Trade, Li Peng said, "The central leadership group with Jiang Zemin as the core has strength and authority. It is now implementing, and will continue to implement, the basic political line and the policy of reform and opening up to the outside world put forward by Comrade Deng Xiaoping." These remarks strongly suggest that in the near future there will be no unexpected personnel changes in the six-member Standing Committee [of the Politburo].

Second, it was on Deng Xiaoping's strong recommendation that Li Ruihuan was appointed to the high post of "supervisor" of ideology in Zhongnanhai. Therefore, provided Deng continues to play the role of commander, Mr. Li will have no cause to worry about his position. From the above-mentioned remarks by Li Peng, it can be sensed that, even if someone once challenged Mr. Deng's position, this challenge has already been blunted. Two recent central-level personnel changes illustrate even better that Deng Xiaoping still has the power to make personnel changes: First, Wang Zhaoguo, former governor of Fujian Province, returned to the capital to take charge of the Taiwan Affairs Office; second, Ding Guanggen, former director of the Taiwan Affairs Office, has taken over the United Front Work Department. Wang Zhaoguo is a talented man who was personally discovered by Deng Xiaoping when he was inspecting the No. 2 Motor Vehicle Plant, and Ding Guanggen is Deng Xiaoping's long-time bridge partner. It is thus obvious that, provided Deng Xiaoping does not change his mind, it will be impossible for anyone to oust Li Ruihuan. *(Editor's note: For further comment and analysis on this subject, see the article in this issue by Lin Nien [2651-1819] entitled "Analysis of the Chinese Communist Work Conference on Taiwan."*

Third, after the 4 June incident, China was anxious to project to the outside world the image that it was continuing the reform, and the Mideast crisis gave China a good opportunity to break through the sanctions and isolation imposed upon it by the West. (Bush's receiving of Foreign Minister Qian Qichen [6929-0366-3819] was clear proof of this.) Li Ruihuan is a political star who emerged from Deng Xiaoping's 10-year tide of reform, and after the 4 June incident he even more represents the image of reform in Jiang Zemin's system. If Li were to fall from power, this would be equivalent to showing to

the outside world that Deng Xiaoping's reform line had been broken. This would be detrimental to domestic political security. It would make it even more impossible for China to justify itself to the outside world, and the little diplomatic success just gained might be forfeited.

From the above-mentioned three points it is clear that Li Ruihuan will not encounter political misfortune in the short term. But this does not exclude the possibility that in his political views he will make compromises with the opposition faction.

Li Ruihuan's Theory of Wiping Out Pornography

During the complicated political struggle in the period when the Chinese Communist leadership was being changed, Li Ruihuan was a mute and reserved figure. When he was put in charge of the Politburo ideology department, he used two "executioner's maces" to smash the theory of wiping out pornography and the theory of serious feelings—to make his top aides get a clear grasp of the issues, and to make the leadership and the rank-and-file understand the issues.

On 24 October 1990, at the national work conference on wiping out pornography, Li Ruihuan made an important speech in which he gave a full explanation of the "theory of wiping out pornography." His main thesis was that pornography and drugs are the result of the inundation of the ideological trend of bourgeois liberalization, and they also have the effect of adding fuel to the flames of this ideological trend. This application of dialectics was not just Li Ruihuan's skillful playing of a hackneyed and stereotyped tune, but was used by him to shut the mouths of those leftist theoreticians whom he found to be especially refractory. Actually, the speech by Li Ruihuan that is in circulation suggests that he limits bourgeois liberalization to "pornographic goods" that harm the health of society, and that, unlike the leftist authorities and conservative forces, he does not extend bourgeois liberalization to serious works of literature, to the theory of art, and to political contention. On the same day that Li Ruihuan's speech was published, a RENMIN RIBAO (Gao Di [7559-3695] is the newspaper's director) editorial, "Make Unremitting Efforts To Fight Pornography," [editorial published in FBIS-CHI-90-209, 29 October 1990, pp 27-28] contained some views not in Li's speech, for example: "Political reaction and character debasement are often closely interrelated, and some people who stubbornly cling to the position of bourgeois liberalization are packagers and advocates of pornography and drugs." The people that the editorial pointed to are hard for this writer to understand, because—from Yan Jiaqi [0917-1367-0366], Liu Zaifu [0491-6333-7159], and Su Xiaokang [5685-2556-1660] to Bai Hua [4101-2901], Li Zehou [2621-3419-0624], and Jin Guantao [6855-6034-3447]—none of them had been packagers of pornography and drugs.

After Li Ruihuan took charge of ideology work, he was never heard to mention anyone by name. The struggle he waged was "to wipe out pornography" (perhaps we can

cite the ZHONGGUO WENHUA BAO investigation incident), and the wiping out of pornography can be said to be a common understanding of the entire society, to be a "righteous cause to be achieved in the present age and to be imbued in posterity" (Li Ruihuan's words).

Li Ruihuan's way of waging "class struggle" to overcome deviations, namely, "with one hand hard and the other hand soft," is a phenomenon seldom seen in the CPC. Obviously, it cannot be done without superb art and without courage and insight.

Some people say that Li Ruihuan has been made a figurehead, and so he can only engage in "wiping out pornography." This is a superficial comment. Li Ruihuan has gotten a tight grip on the movement to wipe out pornography precisely in order to avoid the emergence of another nationwide political movement that would harm intellectuals. By transforming the movement to oppose bourgeois liberalization into a specific movement to wipe out pornography, the social environment can be cleaned up (even Western countries want to wipe out pornography), and also the objective of protecting the cultural circles from being involved on a large scale in a political movement can be obtained. From this it can be seen that in exercising his authority Li Ruihuan gets a grip on what is essential. Therefore, the disturbance about the reversal of the Zhuozhou Conference verdict vanished without causing a big stir; therefore, Fan Ceng [5400 2582] and Bai Hua were protected before they had to leave, and therefore, Zhang Kangkang [1728 2123 2123] (Lu Jiamin's [0712 0857 3046] wife, a well-known writer) and Yang Zi [5017 1311] (Wang Ruowang's [3769 5387 2598] wife) could complain publicly about the alleged injustice done to their husbands.

Li Ruihuan's Theory of Smoothing Out Feelings

After the 4 June incident, the slogans of class struggle quickly reemerged, and Li Ruihuan put forward his celebrated "theory of smoothing out feelings." On 28 April 1990, at a forum of RENMIN RIBAO reporters stationed in China he proposed four major "weapons" for safeguarding the stability of the political situation: coordinate well mutual relations, smooth out people's ideological feelings, unite all forces that can be united, and overcome all sorts of difficulties in doing good economic work. His statement was obviously out of tune with that of some people addicted to the theory of "class struggle," who said it was the undisguised "theory of human nature." There were some reports that Li Ruihuan's theory was attacked by high-level conservatives and that he was forced to retract it. But, in fact, Li Ruihuan continues to hold this view.

On 18 November 1990, when inspecting Hubei Province, Li pointed out that it is most important now to arouse the initiative of the broad masses and the cadres for finding out how ideological and political work serves economic construction. By making the arousing of people's initiative the main task, he wants to untie "knots," dissolve contradictions, smooth out feelings, and display

initiative. It is thus obvious that respecting people and putting their initiative in first place is the guiding idea and core of Li Ruihuan's handling of ideological issues, and is also a characteristic of Mr. Li. If this point were lost, the initiative would exist in name only.

Of course, there have been a lot of obstructions from the "left," and sometimes he has had to retreat and defend himself, but Mr. Li's brilliance lies in not letting these ultraleftists break through the limits set by the 10-year period of reform. On 11 November 1990, at a national work conference on building spiritual civilization, Li Ruihuan said: The "CPC Central Committee Resolution on the Guiding Policy for Building Socialist Spiritual Civilization," which was passed by the Sixth Plenary Session of the 12th CPC Central Committee under the guidance of the older generation of revolutionaries, was a product of the concentrated wisdom of the entire party, and to this day it possesses important significance. As everyone knows, this resolution came into being in the Hu Yaobang-Zhao Ziyang era. Even if there are parts of the resolution that are imperfect, it is still much better than what certain persons want to do. Li Ruihuan has cleverly used this resolution to hold down the leftists and to safeguard Deng Xiaoping's face and line.

Li Ruihuan's Kernel of Religious Sentiment

When commenting on the defects of Chinese culture, some people say that the Chinese people are typical secularists who basically do not talk about life after death, and so their ideas have no binding force and they are bent solely on profit. There is a good deal of truth in what they say. But Li Ruihuan seems to think a lot about the way he will be assessed by later generations. This religious sentiment makes him extremely careful about his behavior. On 23 August 1990, when attending a concert of Shi Guangnan's works, Li Ruihuan said, "In the end a man dies. What he did when alive is often assessed by people after his death. With so many people cherishing his memory and assessing him so highly, Shi Guangnan must feel very happy in the nether regions." Here Li Ruihuan both praised Shi Guangnan and used this praise to show his own feelings. These are the same feelings he expressed when he said "the people are precious, but the ruler is of little importance" and "people are the roots of the state" (speech at XINHUA NEWS AGENCY on 13 April 1990). Thus it can be believed that Li Ruihuan will not, for gain in official circles, easily abandon the principles in which he believes. When he left Tianjin to take an official post in Beijing, he said, "I do not go to punish people but to protect them."

Although Li Ruihuan has resigned from his post as head of the Politburo's ideology leading group, this does not mean that he has already lost power and influence and been made a figurehead. His sense of historical responsibility will make him a man who "in whatever position he is in, plans his political strategy." In the new year we expect new actions by Li Ruihuan, and so we ask our readers to wait and see what they will be.

Representatives of Major Media Discuss 1991 Goals

91CM0318A Beijing ZHONGGUO JIZHE [THE CHINESE JOURNALIST] in Chinese No. 1, 15 Jan 91 pp 4-6

[Article by staff reporters Zhu Shilong (4281 0013 7893), Lu Xiaohua (7120 1420 5478), and Cai Wen (5591 7186): "Promote Stability, Development, Get Close to Social Reality—Responsible Figures of Some News Units in Capital Discuss News, Propaganda Work in New Year"]

[Text] At the approach of 1991, we staff reporters interviewed the responsible figures of some news units in the capital on the work they envisage in the new year.

Promote Stability, Development; Inspire People's Enthusiasm

Shao Huaze [6730 5478 3419] (*editor in chief of RENMIN RIBAO*): In 1991, generally speaking, we must stress two words, which are "stability" and "development." "Stability" means the consolidation and development of the stable, unified political situation; "development" means the carrying forward, in a stable environment, of socialist economic construction and all other construction, and the handling well of reform and opening up to the outside world. Propaganda must closely revolve around these two words. The theme of our New Year's Day editorial for 1991 is the struggle for more stability and development.

With the beginning of the new year, there must be good propaganda on the spirit of the Central Committee's Seventh Plenary Session, which was a very important session. The recommendations it made for the CPC Central Committee for the 10-year plan and for the Eighth Five-Year Plan provide the blueprint for the next 10 years of economic construction and social development. We must write a series of commentaries and articles that publicize the spirit of the plenary session's documents with the objective of enhancing confidence and inspiring enthusiasm. This means enhancing confidence in building socialism, enhancing confidence in overcoming difficulties, inspiring revolutionary enthusiasm, working in full cooperation and with unity of purpose for the implementation of the party's basic line, wholeheartedly engaging in economic construction, and accomplishing the tasks set by the party.

To greet the 70th anniversary of the founding of the CPC, we must integrate the carrying out of propaganda on the party's leadership with the enhancing of confidence in socialism. We have to explain that socialism is the only correct path and that it was chosen by the Chinese people. On the theory page, the special column "Sketches and Notes on Why Socialism Is the Only Way To Develop China" should be run well; on the important news page, the special column "Socialist Construction in Rural Areas" should be run well. They publicize the enormous achievements made by the Chinese people by

their own arduous struggle, integrate theory and practice, and explain that socialism is the only correct path and why it was chosen by the Chinese people.

We must also make a point of carrying on and displaying the party's fine traditions and style, promoting the building of spiritual civilization, stirring the people's enthusiasm, and correcting unhealthy tendencies. Thus, this newspaper's propaganda will truly play the role of a cohesive force that encourages the masses. In 1990 RENMIN RIBAO publicized many advanced models, including some high-ranking cadres who were exceptionally honest in the performance of their official duties, and very good results have already been obtained therefrom.

Fan Jingyi [5400 2417 1355] (*editor in chief of JINGJI RIBAO*): The first year of the Eighth Five-Year Plan is 1991. Conscientiously focusing on economic construction is the central duty of the the entire party and all the people of China. Under these circumstances, conducting better propaganda is particularly important.

As a newspaper that gives priority to economic propaganda, JINGJI RIBAO faces these important questions: How, under the premise of upholding the principle of giving priority to positive propaganda, to make economic propaganda vivid and dramatic so that the broad masses of readers find pleasure in reading it? How to break away from the dilemma in economic reporting of "the laymen not understanding what he reads, and the expert not considering it worth reading," and make reporting such that "the expert does not feel it to be too shallow, and the layman does not feel it to be too deep"? If we don't resolve these difficulties, it will be very hard for our newspaper to fully play its role during the great practice of developing the national economy.

Zhang Changhai [1728 1603 3189] (*editor in chief of GUANGMING RIBAO*): In the domain of ideology and in the guidance of public opinion, the focus of GUANGMING RIBAO's propaganda this year, besides continuing to pursue the policy of giving priority to positive propaganda and to reporting energetically the advanced deeds and models of outstanding intellectuals on all fronts, and proceeding from the newspaper's own characteristics, is to enhance the propaganda on theory. The successes we achieved in the last 10 years were enormous. They laid a good foundation for long-term stable development of China's political, economic, and social affairs. But our propaganda on these successes is quite inadequate. We have just received a delegation that is visiting China from Romania's ROMANIA LIBERA [FREE ROMANIA] newspaper. Mi-ha-yi Ke-lei-an-ge [4717 0761 0181 0344 7191 1344 2706], the newspaper's editor in chief, told us that their visit to China had been very successful and most rewarding. Originally, he said, some delegation members had come to China with a skeptical and critical eye. As a result, what they saw and heard in China exceeded all their expectations. They saw that China's markets were brisk and the life of its people was improving, and this made them feel that what China

was building was not socialism in the narrow sense but was really socialism with distinctive Chinese features. They also felt that our propaganda was inadequate.

Yang Zhengguang [2799 2973 3123] (*director of Central People's Radio*): As the state radio, our general policy is to serve the overall situation of stability. We strived for progress amid stability in 1990. In 1991 we must continue to uphold this guiding idea, further inspire enthusiasm, and strive for a new improvement in our propaganda.

Zhu Tingxun [4376 1656 8113] (*director, JIEFANGJUN BAO*): In 1989 Comrade Jiang Zemin called on the armed forces to become truly politically qualified, militarily skilled, highly disciplined, and a powerful safeguard, thereby comprehensively improving their combat effectiveness. The Army's newspaper must enhance its propaganda on achieving these goals. This year is the 70th anniversary of the founding of the CPC. We must vigorously conduct propaganda on strengthening the party's absolute leadership over the armed forces and on strengthening the building of the party in the armed forces. In recent years the Military Commission and the General Headquarters have formulated a series of rules, regulations, and provisions on strengthening the building of the armed forces in the new period. The policies and principles are already explicit, and the basic regulations and laws are already defined. In the new year we must conduct good propaganda on getting a tight grip on their implementation, so that the demands made by the Military Commission and the General Headquarters will truly be met by the armed forces.

Uphold the Correct Political Orientation; Steadily Intensify News Reform

Guo Chaoren [6753 6389 0086] (*deputy director of XINHUA NEWS AGENCY*): In 1991 we must thoroughly implement the series of instructions on news work given by the party Central Committee with Comrade Jiang Zemin as its core, uphold the correct political orientation, and steadily carry forward news reform. On the basis of consolidating the successes we have already achieved, we have to overcome the weaknesses and defects existing in reporting the news. We must more closely integrate the spirit of the central authorities with the practice of the masses, the policy decisions of the party and government with the rich and varied reality of society, so that our reporting gets closer to the masses and reality.

We must further develop our coverage, as much as possible eliminating "forgotten" corners, and, revolving around one center and two basic points, make the objects of our reporting more unknown heroes who have contributed to reform and opening up to the outside world. The broad masses of people who spare no effort in practice to build socialism with distinctive Chinese features should become the fundamental and main part of our news reporting. We have to concentrate more on in-depth reporting, become adept at penetrating surface

phenomena, and unearth the major themes in building material and spiritual civilization. In depth and breadth, we must continue to bring about new situations in news reporting, and, under the premise of upholding the principle of the party spirit pervading news reporting, constantly push forward the reform of news reporting.

People who engage in bourgeois liberalization are vainly attempting to change the orientation of news reform by making the news profession an instrument that claims to be coequal with the party. We firmly oppose this kind of "news reform." However, to be the good "eyes, ears, and mouthpiece" of the party and government so that the news profession plays a greater role in the life of society, we must consciously overcome the weaknesses and defects in our reporting, and must reform news in a planned manner.

As a news agency, XINHUA must constantly improve its service to the press, radio, and television news media, and constantly improve its service to all circles of society and the broad masses. The key to whether XINHUA's work can display greater social benefits lies in whether it can, based on objective requirements, constantly improve its style and service. For example, in China there are 45 evening newspapers with a readership in the tens of millions. How to enhance and improve our service to them, in line with the characteristics and requirements of evening newspapers, is a major question. With regard to other newspapers and periodicals, we must, in line with each one's characteristics and requirements, constantly improve the content and style of our contributions to them. At the same time, we must display XINHUA's superiorities by continuing to run well LIAOWANG [OUTLOOK], BAN YUE TAN [SEMIMONTHLY TALKS], and JINGJI CANKAO BAO to better serve the broad masses, and by providing good material on economic information at various levels and in various types of writing. By giving impetus to China's four modernizations, we will promote economic cooperation and interchange at home and abroad.

Zhu Tingxun: In January 1991 JIEFANGJUN BAO will change its layout, after which the army newspaper will be "firmer in party spirit and principle, livelier, and more readable."

To conduct good propaganda, both its form and content must be improved. The propaganda must get closer to reality and the grassroots. The writing of propaganda must be shorter, with better readability, so that people will want to read it. The Military Commission leaders have demanded that the army newspaper not carry "face-saving" statements, that it become a newspaper that people love to read and that they look at kindly. We are to use more facts, talk about more models, display a little more literary talent, and enhance in-depth reporting in order to strengthen the newspaper's guiding nature. For more than 30 years the army newspaper has publicized many models: Lei Feng and the Good 8th Company, the eighties' model Zhang Zixiang [1728 1311 4382], and others. However, the reporting on models

should be a little shorter, and they should not be discussed at undue length. We will stress emancipating the mind and boldly blazing new trails, and running the newspaper in line with the distinctive features of the armed forces.

Yang Weiguang [2799 0251 0342] (*deputy director of Central Television*) Beginning in the fourth quarter of 1989, we made a point of upholding and implementing the policy of giving priority to positive propaganda, providing in-depth reporting, and organizing the entire television system to carry several campaign-type reportages, for example, *At a Snap of the Fingers, Looking at Today, Reporting From Key Projects*, and *Glory of the Asian Games*, all of which had fairly good results.

However, speaking from the angle of television news, there are still many problems. They are manifested mainly in: much news that consists of vague generalizations and little news that leaves a deep impression, much news about meetings and little news of interest to everybody, much news that is of little significance over a given period of time and little news that is, and much news of an overlapping nature and little news with television's distinct features. Therefore, television news needs to be reformed.

We recently held a conference of directors of provincial television station news departments which proposed that 1991, with the improvement of television news as the centerpiece, become a year devoted to quality. In content, there will be a continuation of the policy of, first promoting stability and, second, inspiring enthusiasm, and of handling well in-depth serial reporting. About the beginning of the new year, there will be a focus on the successes of the Seventh Five-Year Plan and on the results of the improvement and rectification in 1990; during the Spring Festival, the focus will shift to the grassroots, reporting on the masses of people who live and work in peace and contentment, unity and harmony, and in an atmosphere of full confidence in the future; after the Spring Festival, the 56 nationalities in China will be introduced systematically to enhance nationality unity; about 1 July, there will be reporting on the experiences of a number of advanced grassroots-level party organizations and on the deeds of a number of outstanding Communist Party members who are active on each front. In form, the reporting will display television's spirit and make it lively.

Shao Huare: Making the upholding of the four basic principles and the opposition to bourgeois liberalization run through all propaganda—this is a long-term task on the ideological and political fronts. There must be a clear-cut, unambiguous stand in this respect.

To conduct good propaganda, we must continue to implement the basic policy of making news and propaganda serve the people and of giving priority to positive propaganda. We must use this basic policy to unify propaganda and ideology, making it the foundation for

doing all propaganda work well and the yardstick for judging all results of propaganda.

News must be further reformed, and newspaper propaganda must be constantly improved. The party newspaper must maintain its correct guidance—this is of primary importance. However, propaganda should particularly stress method and art, so that the reader will like it and there will be better results from it. In the propaganda on the Asian Games in Beijing, there were many achievements and experiences. We must maintain the spirit of the propaganda on the Asian Games and must popularize the experiences of it.

Fen Jingyi: Over the past several years, particularly in 1990, we focused on making some attempts at improving economic propaganda. We accumulated a little experience in doing so, which in broad outline is to strive to closely integrate propaganda on the achievements in economic construction with the vital interests of the masses of people and to write from the angle of what the masses feel most deeply about and what they can most easily comprehend. In propaganda on the economic situation, we must strive to integrate what is stated with certainty with what people like to see and hear, what inspires and heartens with seeking truth from facts. In propaganda on the party's economic policy, we must strive to closely integrate ideological reality with work reality and answer the questions of the great number of cadres and masses on a deeper level of understanding. With regard to major questions of economic theory, we must strive to adopt the form of free discussion; in reporting of a critical nature, we must strive to take the path on which "there is fairly small resistance and fairly good results", and so on and so forth. In the new year, we must, in our practice of reporting, make new explorations and continually improve the quality of the reporting. This year will be the "year of quality, variety, and results," and our newspaper must concentrate its efforts on quality, variety, and results, striving for more first-rate products, fewer second-rate products, and no inferior products.

Zhang Changhai: In 1991, to promote economic vitality and social development, and to better carry out the policy of reform and opening up to the outside world, we need to explore many theoretical questions. We must make more efforts in this respect, integrating them with the 70th anniversary of the founding of the CPC, and with the great practice of the more than 40 years since the founding of the PRC and of the 10 years of reform and opening up to the outside world, and we must organize the holding of discussion meetings and the writing of articles. There are now many theoretical questions to be explored, for example, the question of market economy and planned economy. Some people say that the two are as incompatible as fire and water, and that to talk about integrating them is idiotic nonsense. However, for 10 years we have had vivid, practical experiences in this respect, which need to be summed up and clarified in theory, and we are asking experts and scholars to explore and study this question. In theoretical

exploration we advocate telling the truth, letting a hundred flowers blossom and a hundred schools of thought contend. This will greatly benefit the building of socialism with distinctive Chinese features.

This is the first year in the Eighth Five-Year Plan, and during the period of this plan science and technology will be the primary productive force. Economic development depends on science and technology, science and technology depend on talents, and talents depend on education. At present there are difficulties in popularizing the results of science and technology, and only 20 to 30 percent of the results of research have been popularized, which is a great waste. GUANGMING RIBAO must continue to speak out on behalf of the actual problems of intellectuals, and also make more probes into the question of why so many results of science and technology cannot be popularized.

Qu Zugeng [4234 4371 6342] (*deputy editor in chief of GONGREN RIBAO*): In the new year we will still give priority to positive propaganda, giving prominence to the theme of wholeheartedly depending on the working class and letting staff and workers play the leading role on our pages. In particular, we must get a good grip on propaganda on advanced models—on at least 10 of them—so that in the reporting there are rises, falls, and upsurges. We must publicize participation in and discussion of politics by the masses of staff and workers, and their participation in management and supervision. There is a certain degree of difficulty in this kind of reporting, but, if we concentrate on bringing out in the news convincing facts, we will be able to obtain results from this propaganda.

We must, by all ways and means, report the suggestions, opinions, demands, and appeals of staff and workers. GONGREN RIBAO's 1990 reportage "The Empty Cart Is Not Empty" was a major model in the past two years of a newspaper's initiating criticism, and it reflected the ordinary worker's attitude of being the master and his participation in management and supervision. It received much attention and written comments from Premier Li Peng and other leading comrades at the center. There should be more of this type of reporting. For example, there now exists widely the phenomenon of many roadblocks and arbitrary collection of fees. Our newspaper is organizing its forces to cover and investigate this story. In tackling social issues we adopt the method of "for a minor illness make an inquiry, for a major illness give an injection."

Yang Zhengquan: Focusing on the current economic situation and the ideological reality of youth, in the new year, besides fulfilling our major propaganda task, we are preparing to draw support from forces in all quarters and study problems in a directed manner. Propaganda that is not in close contact with reality and that deals in generalities is ineffective propaganda. We will, after investigation, select some major questions, form groups to analyze and study them, and then write articles that answer the questions. There is too little reporting of

international news and its range is too narrow; we must increase its volume and expand its range, and there must be more reviews and commentaries on international hotspots. In the past there were many positive presentations but few issues on which there was focused reporting. In order to let the masses truly understand the situation and the international environment, the reporting must look at more angles and aspects that suit the needs of reform and opening up to the outside world. For example, there is now little emphasis put on the difficulties of Chinese students studying abroad.

International news reporting must be thought of in a strategic manner, and it must not just pursue the direct results of a single act or a short period of time. The West's idea of peaceful evolution is a long-term strategy. We oppose peaceful evolution, and also oppose it step by step without letup and unremittingly.

Enhance Building the Rank and File, Improve Professional Quality of Politics

Shao Huaze: We must conscientiously build the rank and file, including in this the building of ideology and the building of organizations. To maintain the correct guidance of public opinion, so that RENMIN RIBAO becomes a powerful instrument of the party Central Committee and a newspaper that the great number of readers like, there must be a rank and file that is very strong politically and that, in ideology, style, and work capability, suits the party spirit and tasks of a central organ. We must be concerned about the work and life of our editors and reporters, and fully bring into play their initiative and creativity.

Zhu Tingxun: Speaking of the working personnel of the army newspaper, they are first of all party members, next armymen, and last of all news workers. We have formulated specific measures for strengthening our own building, the general demand of which is contained in the following words: Enhance party spirit, strengthen unity, pool the wisdom and efforts of everyone, and run the army newspaper well.

Yang Weiguang: At present, the common defect of television reporters is that they are not adept at interviewing news figures and are not adept in letting them tell the news in their own words. Therefore, we suggest that the sound and image superiority of television be displayed, and suggest that there be on-the-spot news briefs, to improve the sense of television news being on the scene, the sense of its having an objective, and the sense of viewer participation.

These reforms require that first-line reporters have a fairly high political and professional quality, and that they have a good ideological work style. In 1991 we will stress the strengthening of in-depth news coverage, prepare to transfer some backbone elements from various local television stations to a training class where they will teach some lessons, engage in a little cluster-type news coverage, and carry television news programs that people

will watch and encourage other people to watch. By integrating theory with practice, there will be faster improvement.

Guo Chaoren Starting in 1988 XINHUA drew up a plan for enhancing the building of its rank and file and for improving the political quality of its cadres. Political quality is always shown in daily work and deeds, particularly in the practice of one's profession. In the end it is reflected in the reporter's ideological style. A reporter must get deeply involved with reality and with investigation and study. This is the basic criterion for whether XINHUA can be the good "eyes, ears, and mouthpiece" of the party and the government. Over the past several years there has been a weakening in the investigation and study done by some reporters. Herein lies both a problem of understanding and a problem of management.

Investigation and study are a reporter's basic skills. No matter how times change, a reporter must correctly understand and reflect reality, and investigation and study are still the most fundamental ways of doing so. In addition, we must strengthen the building of the reporter's ethical work style, vigorously train them in the noble sentiment of serving the people wholeheartedly, and resolutely oppose behavior that looks for profit and forgets what is right, that "seeks private gain from what one writes." A person who stinks of money does not qualify as a news reporter of the party and the people.

Raising the management level is also an important task facing us. We have to make management scientific and institutionalize it, fully display the superiority of XINHUA as a "colony," improve its efficiency, and promote the development of all aspects of its work.

Political Infighting Affects 7th Plenary Session

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[Article by Ko Liang (2688 5328): "Why the Seventh Plenary Session Did Not Take Place Until the End of the Year"]

[Text] The Seventh Plenary Session of the 13th CPC Central Committee was originally set to convene in early October 1990. At that time, the voice of reform within the high levels of the CPC was barely audible. The old conservative forces wanted to "recover and pull back" to restore a highly centralized system in which the central authorities totally controlled the country's economic, political, and cultural life. Deng Xiaoping did not say a word. Dejected, Li Ruihuan declined to comment. It was difficult for Jiang Zemin to coordinate things. Wan Li stayed aloof, refusing to get involved. Several of the old politicians saw the opportunity was ripe to use the Seventh Plenary Session to promote, in its entirety, their program for a pullback. At that point, the first draft of the Eighth Five-Year Plan and the 10-Year Program drawn up by a group convened by Yao Yilin had

appeared. After it was sent to the provinces and municipalities and to the various departments and committees for study, not many people expressed much disagreement. As a result, the spokesman for the State Council, Yuan Mu, was authorized to announce to Japanese reporters that the CPC Seventh Plenary Session would be convened.

Who could have known that, with the session near at hand, Deng Xiaoping would suddenly announce his objections through Jiang Zemin, declaring, "A number of people disagree with the draft (that is, the draft of the Eighth Five-Year Plan and the 10-Year Program), and I too am dissatisfied with it. It would appear we should seek more opinions on how, during the next 10 years, we should carry out reform and the opening to the outside and what their status should be. In the final analysis, the economy will have to go up before socialism will be persuasive and before it can stand firm. Productive forces going up and a common prosperity are the major signs that the system of balances is effective. Other work must revolve around these important things. If we are to achieve the second-stage targets for economic growth in the nineties, I think we still have to carry out reform and the opening to the outside. We must skip the conventions and restrictions, show a little boldness, and try to work even faster than we did the last 10 years."

Even though Deng Xiaoping's objections were not widely communicated, once they were set forth, they resulted in a major assault against high-level conservatives who hold significant power in the CPC and in an increased number of people taking part in formulating the Eighth Five-Year Plan and the 10-Year Program. From the central government to the localities, voices demanding reform began to be heard. More and more differing opinions were expressed. This caused what had been a settled case to suddenly become unsettled and made it more appropriate for the plenary session to be delayed again until 25 December.

Actually, the Seventh Plenary Session could not be convened on schedule because the Central Committee's high-level conservatives and reform forces were engaged in an intense dispute and for a time were unable to a compromise. Following the 4 June 1989 incident, the Central Committee reformists were severely wounded and the conservatives greatly strengthened. There was a complete lack of enthusiasm for all aspects of the politics, economics, and culture of the last 10 years. A group of people who would attempt nothing and accomplished nothing mounted the political stage to carry out a complete settling of accounts for 10 years of reform.

In economics, they sped up the restoration of the ramshackle "planned economy" system that had been battered by reform and the opening to the outside, strengthened overall control by central authorities, took back authority that had already been decentralized, and discontinued the urgently needed reform of the pricing system, the property rights system, and the foreign trade system.

Politically, they stopped using the "established system of consultations and dialogue" provided by the 13th National Party Congress, stopped increasing the openness and candidness of political dealings, and stopped effecting the separation of party and government and the party and enterprises as an initial stage in reform of the political system. They dissolved the CPC Central Committee's Political Structure Reform Research Center, formerly headed by Bao Tong, and prepared to reopen the research office of the CPC Central Committee Secretariat (a notorious bastion of conservatism once headed by Deng Lihou) and to allow XXX, who was suspected of bribery, take over as head of this organization. In this way, they intended to concentrate the forces of conservatism within the higher levels of the party. In addition, they brought in some of the people who, before the Cultural Revolution, had drafted the "Ninth Comment" to prepare public opinion for the Great Cultural Revolution and some members of the big and small "writing work groups" under the command of the "gang of four"—members who, during the Cultural Revolution, had specialized in writing "mass criticism articles." They then formed them into groups or entrusted them with important jobs or tasks for the purpose of taking over important departments within the higher levels of central party and government organs. These people controlled all aspects of information going in and out of these party and government organs as well as the ideological channels in and out of these organs. They supported by coordinated political action the policies laid down by those wielding power in the conservative faction of the party, thereby controlling the strength of the reformists within the party.

In the realm of ideology and culture, they imitated the same ultraleftist ideological garbage that had already been worn out by the gang of four. They desperately preached on the themes of "class struggle," "peaceful evolution," "proletarian dictatorship," "Marxism-Leninism-Mao Zedong Thought being universally applicable," "capitalism being doomed," "only the Communist Party being correct," and "without the CPC, there would be no state and no people." They completely prohibited any questioning of or disagreement with any of these outmoded ideas and strictly controlled and cut people off from contact and study of outside ideas and culture. They used the words of the gang of four to express their own creed: "If we do not want weeds in the socialist garden of culture, we cannot permit a hundred bourgeois flowers to bloom."

A series of general and specific policies on pulling back that were implemented in all aspects of politics, the economy, and culture brought back, for a time, their so-called "stability." However, the mainland paid a high price for the stability that was achieved.

First of all, "stability" such as this, which was based on high-handed policies, did not pacify the resentment and sorrow felt by mainlanders who experienced the 4 June incident; instead, it further intensified people's lack of confidence and increased their estrangement. People

compare the present situation with 1976, the period before the fall of the gang of four, concluding that "their days are numbered." People are waiting quietly for a "big political change" in the upper levels of the CPC.

Economically, more than a year of "improvement and rectification" has failed to bring any material benefit to mainlanders. Prices have risen, incomes have declined, there is unemployment, and the number of unemployed has increased. The incomes of the provinces and municipalities have undergone sharp decreases. One-half of the country's more than 2,000 counties and cities have incurred financial losses. Many local government departments have been unable to pay their wages. In Henan, 70 percent of the counties are depending on loans to pay their cadres' wages. "Improvement and rectification" have also created huge losses in 70 percent of the state-operated enterprises across the country. These enterprises are depending on state subsidies for their existence. In 1990, the state relied on printing paper money to give impetus to enterprises to fulfill the annual plan's "6 percent growth." Of the more than 200 billion yuan invested in enterprises, two-thirds of it has been converted to overstocked goods stored in warehouses. After October, even though the rate of production went up, economic efficiency declined. An economist has estimated that, during the last half of 1991, prices nationwide could "greatly bounce back up," causing an even higher rate of inflation than in 1988. He has pointed out that the effect of "improvement and rectification" has been negative. "Readjusting the product mix and the industrial structure to improve economic efficiency" not only has not achieved positive results, it has, on the contrary, produced a series of negative effects such as an economic downturn, a return to the old system, and regional embargoes, thereby causing unprecedented difficulty for the deepening of reform. This situation, plus political high-handedness and a cultural wasteland, made it unbearable for the people.

It was against this background that the reformists within the CPC, who were in an inferior position, realized that they could no longer remain silent. When Deng Xiaoping expressed his dissatisfaction with the Eighth Five-Year Plan and the 10-Year Program, the reformists had the chance to make their views known. However, Deng Xiaoping's position in the CPC is not the same as in years gone by. Because of interference from other old politicians, it is now difficult for him to make his viewpoint the dominant one. Others might consult with him, but they do not necessarily act accordingly. Furthermore, the CPC does not have any strong, forceful figures to resolutely do what he wants. Consequently, because there apparently is no single accepted ruling authority, when major differences occur within the higher levels of the CPC, reaching a consensus is quite difficult. This is why the Seventh Plenary Session was repeatedly put off. This illustrates the plight of today's CPC. On the one hand, their power is highly centralized, making it hard for anyone else to get a share. On the other hand, it is hard for them to give form to their

authority. They cannot exercise their power efficiently. This is what is called having power but no authority.

The debate that has unfolded at the higher levels of the CPC between the forces of reform and those of conservatism over the provisions of the Eighth Five Year Plan and the 10-Year Program focuses on the salient question of whether the strategy for China's economic growth in the nineties is to take a market-oriented path or the traditional path of a "planned economy."

It is the view of CPC conservatives that, although 10 years of reform have achieved some success, its biggest drawback has been the disruption of the central authorities' economic planning and control throughout the country, thus weakening the state's ability to plan deployment of key construction projects and to distribute resources on a rational basis, dissipating state financial and material resources, creating widespread chaos in economic life, causing imbalances in the industrial structure, and disrupting various proportionate relationships. Consequently, the main goals of the Eighth Five-Year Plan are to "control the chaos," establish the authority of state planning, invest state financial and material resources in projects to build up the infrastructure, exercise direct central control over large and mid-sized state-operated enterprises, strengthen the investment in and the building of raw and processed materials industries, draw back from the opening to the outside where it is appropriate, "not to count on obtaining capitalist funds and technology," and "adhere to a socialist orientation with respect to reform, the main purpose of which is to build a comprehensive system and rational mechanisms for a socialist planned economy."

Working in concert, the ideologues of CPC conservative forces supplemented this scheme by declaring, in ideologically colored language, "Socialism is being subjected to severe challenges the world over. Capitalism and peaceful evolution have now succeeded in East Europe and the Soviet Union. China has become the true bastion of socialism. China must raise the banner of socialism. It must have a strong economic base—a planned economic base that is completely independent. We must eradicate from our economic base the breeding grounds of bourgeois liberalism and discard those components of the economy that rely on the capitalist world."

In planning economic growth during the period of the Eighth Five-Year Plan and setting forth its strong ideological coloration, CPC conservatives, in a short time, formulated the ideas that dominated the Eighth Five-Year Plan and the 10-Year Program and controlled every aspect of participation. In the latter part of October, the well-known mainland economist, Xue Muqiao [5641 2550 2890], wrote a long letter to the CPC Politburo Standing Committee. In discussing his views of the Eighth Five-Year Plan and the 10-Year Program, he said that the lesson to be learned from the drastic changes in East Europe and the Soviet Union is that the Communist Party must avail itself of opportunities to get a hand on its own power, take the initiative in carrying out reform,

boldly and continuously cast aside those doctrines of the past that were once thought to be in observance and implementation of "socialism," and formulate developmental planning according to objective economic laws, thereby enabling China's economic growth to rapidly shrink the gap with developed capitalist countries. The letter advised against drawing too much of a distinction between socialism and capitalism in economic work. Since economic activity is basic to mankind's existence, any economic system must conform to objective laws. This renowned economist gave as an example, market slumps, which in capitalist countries are a common ailment. When they occur there, competition becomes even more intense and the superior eliminates the inferior. This promotes technical renovation and new products, thereby enabling the economy to revive at an even higher level. How do socialist countries handle slumps? There are before us two paths. One is the old method of protection, with the state assuming responsibility for enterprise difficulties by using subsidies. In the past, this was thought to represent the "superiority of socialism." Another path is competition, with the superior eliminating the inferior. In the past, this was often regarded as the "blindness of capitalism." In fact, "the superior eliminating the inferior and the survival of the fittest" are not only objective laws in the evolution of living things, they are objective laws of social development. Perpetually protecting what is backward guarantees that we will be unable to compete with capitalist countries.

It was formerly thought that a socialist economy was an "economy of scarcity." Now, the problems that occur when there is a market slump are the same as in capitalist countries. This shows that, irrespective of the system, there are common principles governing market operations. Xue Muqiao explained this even further, saying that, in the past, during our three years of economic difficulty, we adopted "price controls and rationing." And in capitalist countries after the war, they did the same. In 1945, following Germany's defeat, that country underwent three years of rationing. In 1948, the market and prices were freed. West German Premier Erhard, through monetary reform, reduced the aggregate amount of currency in circulation, thereby bringing about a needed balance between the market and currency. Freeing prices enabled the goods that were being stored in warehouses to be put on the market. Prices stabilized and for a time it was described as a miracle. In the past, it was always thought that "monetary controls and freeing up prices" were measures associated with the economic laws of capitalism. Actually, we did the same thing during the time of the liberated areas, and it was quite effective. In addition, not only can socialism encourage free competition and simultaneously strengthen the state's macroeconomic intervention, capitalist countries can as well. However, in the past, we have relied more on direct administrative intervention. Others who have adopted more indirect measures of economic control have had better success than we have. Therefore, I say that economies of capitalist countries are not laissez-faire economies. To sum up, "planning

and the market are mutually linked." This is an objective law whether we are talking about capitalism or about socialism. Our mistake in the past was not in gradually freeing up prices, it was in our failure to control growth in the aggregate money supply.

Xue Muqiao's purpose in writing this letter is quite clear. He hoped that, on issues pertaining to deepening the reform of the economic structure, those at the higher levels of the CPC would be able to further free themselves from the shackles of ideology and show a more enthusiastic and bold pioneering spirit.

Three of the six-member Standing Committee of the CPC Politburo who read Xue Muqiao's letter—Jiang Zemin, Qiao Shi, and Li Ruihuan—praised it highly. As for the other three members, although they had varying views of the contents, it was not in their interests to oppose it, since Xue Muqiao is one of the party's original economists and the letter was a reflection of his qualifications, reputation, and scholarship. Therefore, at the suggestion of Jiang Zemin, a reply in the name of the Standing Committee of the Politburo was written to Xue Muqiao praising him for his "commendable concern for the country and the people, a concern that reveals our veteran comrade's utter devotion to the country and the nation."

Afterward, Jiang Zemin, beginning to be concerned about the work of drafting the Eighth Five-Year Plan and the 10-Year Program, on several occasions called specialists together for informal talks. Among those he included were Li Yining [0632 0110 1337], Wu Mingyu [0702 2494 3842], and Wu Jinglian [0702 2417 3353], all of whom had been labeled "Zhao Ziyang's sinister band of staff officers" by the conservatives. Jiang Zemin hoped that, by including those from various sides, he would be able to "draw on more views" in formulating the Eighth Five-Year Plan and the 10-Year Program. Taking advantage of the opportunity, those in the party wanting to continue reform gradually made their voices heard more loudly.

The views of the reformists toward the Eighth Five-Year Plan and the 10-Year Program focused mainly on "how a planned economy could be integrated with market regulation." They are of the opinion that economic development strategy for the nineties should give prominence to reform, that its role should be increased and given paramount position, that its orientation should be in the direction of the market, and that there should be no return to the traditional system of a planned economy, the main flaw of which is a lack of objectivity that transforms planning into subjective assumptions divorced from economic reality. It is impossible to give expression to the law of value because a sound market environment is lacking. This is why a planned economy cannot be relied on and utilized. Consequently, a market must first be developed and perfected before it will be possible to "integrate a planned economy with market regulation." If a market is to be developed and perfected, two aspects of reform must first be implemented. First,

the government must be separated from the enterprises. Enterprises should be allowed to have more complete decisionmaking authority of their own in production management and be freed from government administrative intervention. This would create the conditions enterprises need for the superior to eliminate the inferior in market competition and for optimizing their composition and would be crucial for moving toward a rational product mix and industrial structure. At the same time, this must be complemented by a completely integrated reform of shareholding and a property rights system that would allow industry to become the main economic activity. Second, the price structure must be reformed. The extent to which prices are fixed by the market should be expanded, and the proportion fixed by the state reduced. This would permit the law of value to truly become the main lever regulating economic activity. To sum up, the new economic structure will consist of state and enterprise operating mechanisms that revolve around what are regarded as objectively existing diverse relationships formed by the market. An economist who agrees with this reformist thinking has told me privately that this is basically the same policy as "the state regulating and controlling the market and the market guiding the enterprises" that was formulated at the 13th Party National Congress. People have merely altered the way they describe it, that is all.

Although the views of these strong advocates of reform are boldly stated, by no means do they hold a dominant position. They cannot replace the dominant ideas on economic development planning in the guiding ideology of the CPC conservatives. There exist two unfavorable factors. First, the advocates of reform in the higher levels of the CPC power structure are still weak. It is generally thought that Jiang Zemin and Li Ruihuan are outside the economic circle controlled by Li Peng and Yao Yilin. However, the more acute the disagreements and the more intense the opposition become with respect to dissenting views, the more Jiang Zemin must be conciliatory and compromising in order to maintain his own balanced position. He sometimes prefers to sacrifice the views of the weaker forces in exchange for political stability at the higher level. Therefore, he cannot be regarded as someone firm in his support of reform. In fact, he will have to win the common support of Deng Xiaoping and other old politicians if he is to continue to survive. If he expresses any undue emphasis on differing views or stands, his position will be at risk. This approach often makes him look rather weak on major issues. He lacks the courage and resolute character that Deng Xiaoping expects authority figures to possess.

In this regard, Deng Xiaoping has expressed some misgivings, demanding that Jiang Zemin "handle important matters with boldness." He has said to Yang Shangkun, Wang Zhen, and Bo Yibo on a number of occasions, "The leader of the party Central Committee is now Jiang Zemin. We must obey him. If we don't obey him, whom will we obey?" Deng also brought Wang Zhen, Song Renqiong, Bo Yibo, and Yang Shangkun together for a

talk. After discussing the Seventh Plenary Session, Deng declared, with respect to disbanding the Central Advisory Commission, "now that the replacement of the old by the new in the central collective leadership has been accomplished and the new leadership core has been determined, our generation must be historically aware. We old comrades must consider taking the collective step of all retiring and disbanding the Central Advisory Commission, which is a superfluous organization. My health is pretty good now. I can't do every job. But this is just fine. It isn't necessarily the role of the old comrades to have to do every job. If we live for a few more years, we can make decisions on things as we have in the past. We can still be the spectators who see things more clearly. Everything is in position. The young comrades who are starting to work are afraid to go all-out. We have to urge them to establish their authority as fast as possible."

However, Deng Xiaoping's views found no response whatever from the old men. The collective retirement of the Central Advisory Commission, a topic originally set for the Seventh Plenary Session, was unable to make it to the agenda. The Politburo personnel program of "some entering, some retiring" became instead a policy of "only entering, no retiring." In this way, the basic political framework of the "old men intervening and the young ones acting out their roles" will continue without change.

The second unfavorable factor preventing the reformists' proposals for economic reform from becoming dominant is the CPC conservatives' tight control over ideology and public opinion. They push their "opposition to bourgeois liberalization" into the territory of economic structural reform, with every major question pertaining to economic structural reform being minutely examined to determine "whether it is socialism or capitalism." They have suffocated the exploratory spirit of reform and made it impossible to develop and implement any market-oriented reforms. Wang Renzhi, director of the Propaganda Department, in an article in *RENMIN RIBAO* in 1990, said the "tide of bourgeois liberalization has produced its own economic roots. 'Economic structural reform' presents a major question of right and wrong, that is, does it adhere to a socialist orientation or does it take the capitalist road?" What they are advocating is a continuation of the type of political activity attacking economic structural reform that former CPC Secretary General Zhao Ziyang held in check in 1987.

An economist who worked on the Eighth Five-Year Plan and 10-Year Program has told me, "The ideological opposition of the rigid conservatives in the CPC to economic structural reform represents their extreme reaction to China's basic strategy of reform and opening to the outside of the past 10 years. Their behavior could very well bring a decline in China's economic growth during the nineties. Up to now, China's experience has been different from that of the Soviet Union and East Europe. China's road to reform has been quite unique. From the standpoint of ideology and theory, Chinese reform emerged quite suddenly. Explicit ideological

value judgments were not made nor was an ideological orientation determined before it was launched. Except for certain very general guidance principles, the specific goals, measures, and methods were formed naturally by repeatedly making choices with respect to a series of difficult questions throughout the entire process. The frequently back-and-forth road that China's reform took was gradual and roundabout. It gave each sector the utmost freedom, strove to make partial and local breakthroughs, and constantly engaged in "trial and error." This was the basic strategy of China's reform. It had both its strong points and weak points. Whereas the old system was quite strong, the new system, although still needing to mature under historical conditions, did have more strong points than weak points. Although China's new system of economic development still is not perfected to the point where it can replace the old system, this type of strategy will still be effective for the future. At present, with the CPC's conservative ideology permeating economic structural reform, implementation of the reform strategy described above has been pushed into a dead end. It is bound to prevent a smooth transition from the old system to a new one. The new system will not be able to grow in a balanced manner and replace the old system. The frictions between the two will become exacerbated. The result could be the creation of the same violent unrest that occurred in all the East European countries for having put off economic development, leading China into a long chaotic period of turmoil and instability."

Echoing the views of this economist are the thoughts of the people about the 4 June 1989 incident. A mainland scholar has said, "The 4 June incident made clear that the traditional authority of the CPC political system was nothing like it had been before. If the system is not reformed, it is very likely to face three big future challenges. First, supreme power that cannot be apportioned and delegated cannot, as a result, be transferred naturally to the next generation in an orderly and stable manner. Those who temporarily acquire this power cannot break away from the protection of the person who abdicates power to independently and quickly establish their own authority and consolidate their own position, nor can they effectively prevent overly ambitious schemers from usurping supreme power. Second, owing to its intense cliquish nature, the traditional political system completely lacks the capacity for political generosity. Consequently, it cannot respond to the need to democratize society, and sharp clashes with the democratization process will most likely occur. Once the authority of the system itself begins to waver, the democratization of society—which it did all it could to suppress—will deal it a mortal blow. Third, this traditional system absolutely cannot tolerate an independent market force outside of its control that would be regarded as "objective." If this were to occur, its authority would no longer be total and effective. It would have to face challenges and constraints from the politically aware forces representing the market. However, the system's rejection and suppression of the market will inevitably lead to economic stagnation

and backwardness for the mainland and cause public dissatisfaction with the system.

To sum up what we have said, because of the two unfavorable factors that we have discussed above, forces striving for reform and opening to the outside cannot hold a dominant position with respect to formulating the Eighth Five-Year Plan and the 10-Year Program. Despite a debate of more than two months' duration that the CPC reformists have had with the CPC conservatives and despite the hard work of the reformists to include

reform proposals in the plan and in the program to keep the conservatives from being able to easily have their own way, ultimately, the Eighth Five-Year Plan and 10-Year Program that will emerge from the Seventh Plenary Session on 25 December will very likely still bear the stamp that the conservatives initially gave them. Although reformist views were somewhat watered down with respect to the program's conservative coloration, it only made it seem more lacking in sharpness and more mediocre.

NATIONAL AFFAIRS, POLICY

Economic Growth 1979-1988

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[Article by Guo Kesha (6753 0344 5446), Doctoral Candidate, Institute for Research Fellowships, Academy of Social Sciences of China, edited by Dong Xue (2639 7185): "An Analysis of the Factors and Effects of Economic Growth From 1979 to 1988," (footnotes as published)]

[Text] This article is a part of the research topic on "China's Economic Growth and Structural Changes in the Past 10 Years (1979-1988)." The whole article consists of three parts: 1) analysis and comparison of the factors for economic growth; 2) problem of demand inflation in the economic growth; and 3) structural changes in the course of economic growth.

In the 10 years from the end of 1978, when the third plenary session of the 11th CPC Central Committee was convened, to the end of 1988, when the overall improvement and rectification began, China's economic growth was realized in the last background of structural reform and opening to the outside world and there were many special features different from the preceding 30 years. On the basis of continuing the reform and open door, for the sake of pushing the national economy to gradually proceed on the track of sustained, stable, and coordinated development, we have carried out an affirmation and analysis of the factors and effects of the economic growth in the past 10 years and hope to derive from them certain beneficial enlightenment.

I. Fixing of the Analytical Target the Growth Factors

Since the creation in the 1960's to the 1970's of the method of analysing economic growth factors by the American economists Kendrick and Dennison, it has become an important analytical tool for studying international economic growth problems. In our country, as a result of the incompleteness and in coordination of the economic statistical data, the employment of this analysis has suffered from rather large restrictions. However, we cannot, because of this, give up the necessary efforts in this direction, but should, through making appropriate revisions or changes on the existing statistical indices, more or less achieve our research purposes.¹ (Regretfully in recent years many scholars have employed this method of analysis, but mostly overlooked the rational character of the statistical data used and few people cared to discuss or prove the scientific character of the statistical indices employed with the result that while the same research method had been employed vastly different conclusions were obtained. At the same time, it seemed that nobody cared to discuss or assess other people's research form and conclusions. This has greatly lowered the actual significance of this analytical method as well as the results attained.) This is because

the use of this research method not only is helpful to making a general analysis and assessment of our country's economic growth to enable making a more scientific international comparison, but is also important in making an overall analysis of the factors and effects of our country's economic growth in the past 10 years, and thereby finding a road to ameliorating the economic growth. At the same time, such research will help us find the causes for the demand inflation and structural imbalance, make an overall analysis of the problem of economic effects, study the conditions of the allocation of resources, and seek a better form for the reallocation of resources.

Based on our country's existing statistical materials, considering the degree of reliability and accuracy of the results of the analysis and also to compare with the conditions of the preceding 30 years, we have selected the state-run industry as the blueprint for analyzing the growth factors. Thus, it is necessary to briefly discuss the statistical indices used.

1. Regarding the index for economic growth. In analyzing the growth factors, the method generally adopted is to compare the national income or net output value index with the input factors index. However, the lack of comparable data has restricted the use of this comparison method. Under such conditions, certain comrades have directly used the index of gross output value in replacement, but an output index embraces duplicate calculations and lacks accuracy if used to indicate the level of economic growth. In particular, under the conditions of the constant changes in the proportion of material consumption, the growth rates of gross output and net output values are obviously different from one another. For example, in the years 1979 to 1988, between the gross output and net output values there was a difference of 1.8 percent in the average annual growth rate, of which during the years 1984 - 1988 the industrial output value growth rate was on the average higher by 2.68 percent over the industrial net output value.² (Based on *The Statistical Yearbook of China*, 1989 for computation.) Hence, the direct use of the growth index of gross output value to carry out the comparative analysis of economic growth will inevitably show rather large deviations in the results. To solve this problem, some comrades have used the ratio of the output value of industries owned by the whole people in the industrial gross output value, multiplied it with the national income of industrial departments computed in constant prices, and thus obtained the national income of industries owned by the whole people computed in constant prices and its growth index.³ (See "China's Macroeconomic Structure and Policy," compiled by Zhang Fengbo, published by China financial and Economic Publishing House, 1988 edition, P 39.) The income national index thus computed is naturally more accurate than directly using the gross output value index, but in reality this computation method is a supposition: that

Gross output value of industries owned by the whole people / Gross output value of whole industry = Net

output value of industries owned by the whole people/
Net output value of the whole industry

That is:

Net value of industries owned by the whole people/Gross
output value of industries owned by the whole people =
Net output value of whole industry/Gross output value
of whole industry

(Formula 1) products two ratios which are not synonymous. The former ratio is larger than the latter. For example, in 1988 the net output value of industries doing independent accounting and under the system of ownership by the whole people occupied a ratio of 30.79 percent of the gross output value while during the same period the net output value of industries doing independent accounting occupied a ratio of 29.49 percent of the gross output value.⁴(See *Statistical Yearbook of China, 1989*, p 292) a difference of 1.3 percent. If the latter ratio (that is, the weighted average figure of industries of various types and categories) is taken as 100 percent, then the first ratio is higher than the average by 4.4 percent. It can thus be seen that there exists, in the national income growth rate of industries owned by the whole people computed in this way, a definite deviation, that is, an obvious low estimate of the condition.

Having considered the above two kinds of conditions, we have adopted the following formula to do the computation work:

$$\begin{aligned} \text{annual average growth} & \left(\begin{array}{l} \text{annual average growth} \\ \text{rate of gross output} \\ \text{value of state-run} \\ \text{of state-run industries} \end{array} \right) = \left(\begin{array}{l} \text{annual average growth} \\ \text{rate of gross output} \\ \text{value of whole} \\ \text{industry} \end{array} \right) - \left(\begin{array}{l} \text{annual average growth} \\ \text{rate of national} \\ \text{income of whole} \\ \text{industry} \end{array} \right) \\ \times \frac{\text{annual average ratio occupied by net output value of} \\ \text{state-run industries in gross output value}}{\text{annual average ratio occupied by net output value of} \\ \text{whole industry in gross output value}} \end{aligned}$$

In the above, the ratio between the average proportion of the net output value of state-run industry and whole industry carries two points of significance: First, the yearly average proportion of net output value in gross output value removes the different influences imposed by changes in the net output value on the growth rates of the national income and the gross output value. Second, the rate between the growth rates of the national income and the gross output value reflects the difference of state-run industry and whole industry in the relations with the growth rates of the national income and the gross output value. naturally, this method of calculation still cannot avoid the existence of minor deviations, but compared with the two above-mentioned calculation methods, obviously it is more accurate.

2. Regarding the index for input of funds. At present, the methods of estimating the gross volume of our country's assets are greatly different from each other and

hence the estimations are greatly different. For example, the World Bank's economic investigation group, based on the coefficient computed from the price readjustments in the table of input and output, believed that the prices of China's investment goods could be extremely low. For the sake of making an international comparison, a newly calculated price coefficient used to readjust the gross volume figures of our country's assets. The readjusted coefficient for fixed assets was 1.28 while that for circulation funds was 1.15. The growth rate of the input of capital funds was thus relatively higher. ⁵(See "China-Problems and Program for Long-Term Development," by the World Bank 1984 economic investigation group, published by the China Financial and Economic Publishing House, 1987 edition, pp 32-33, 43, 50-51 and 59). On the other hand, certain comrades in the country used the investment price index to revise the original and net values of the fixed assets and used the retail sales commodity price index to convert the circulation funds, and from this the growth rate of the input of capital funds was rather low. ⁶(See "Technological Progress and Industrial Structure—Selections," compiled by Li Jingwen and Zheng Youjing, published by the "Jingji Kexue" publishing House, 1989 edition, pp 14-15.) Obviously, it can easily be seen that the price readjusting methods employed in these two calculation forms were on opposite sides and hence the estimated results were naturally greatly different. Furthermore, certain comrades would not use the price index to carry out readjustment or conversion, but took the original value of the

fixed assets multiplied by three-fourths plus the net value of fixed assets multiplied by one-fourth as the fixed assets index, then used the receipts distribution rate of fixed assets and circulation funds as weight, made a weighted average index of the consumption or use of fixed assets and circulation funds, and derived from the index for consumption and use of growth assets. The growth rate of input of capital funds obtained in this way was also rather high. ⁷(See "China's Macroeconomic Structure and Policy," edited by Zhang Fengbo, pp 41-46 and 61-62.)

Summing up the above-mentioned three kinds of computation methods, we believe that although the conditions of the supply at low prices of investment goods and the rise of the prices of the means of production do co-exist in our country, yet to a very large extent these two conditions offset each other. However, in consideration of the fact that since the reform, particularly since

1984, the general price level of means of production has risen on a large scale and that we have had to readjust the circulation funds on the basis of the retail sales price index and also considering the condition that all along in our country the depreciation rate of our fixed assets has always been low, in our computation of the gross volume of assets we have no longer taken into account the influences of the original value of the fixed assets but have taken the net value of fixed assets plus the fixed circulation funds after passing through price conversion as the gross volume of assets to examine the growth rate of the input of funds.

3. Regarding the index of labor input. In this regard, everyone's computation method is more or less alike. Here, the changes in the number of staff members and workers of state-run industries are taken as the growth index of labor input, neglecting other concrete factors such as improvement in labor quality (educational level), changes in labor period (age, sex), and so forth.

4. Regarding the flexibility of growth in funds and labor. In determining the output flexibility or growth flexibility of the various kinds of input factors, in general the factors' share portion of the receipts is used. Since this article will analyze only the two production elements of funds and labor, the general share portion of the receipts will only be split between these two elements. Copying the method of the World Bank investigation team⁶ (See "China: Problems and Program of Long-term Development, Appendix V" compiled by the World Bank 1984 economic investigation team, p 59), we have also adopted two splitting methods: A) the share portions of funds and labor are respectively 60 and 40 percent; B) the share portions of funds and labor are respectively 40 and 60 percent. If we take into consideration the low

wages and the general income condition of our country's staff members and workers, then the first sharing ratio is more appropriate; but if we consider that various kinds of subsidies and benefits enjoyed by staff members and workers of state-run enterprises, particularly since the reform the condition of the continuous increase in the porportion of awards and granting of goods in kind by the enterprises, then the latter method of distribution is more appropriate. Generally speaking, regarding the analysis on the preceding 30 years, program A should principally be used, whereas for the analysis on the recent 10 years program B should be principally used.

II. Analysis and Comparison of the Growth Factors.

Based on the foregoing discussions, we can use the following formula to analyse the economic growth factors of state-run industry:

$$G_v = (aG_k + BG_l) + GA \text{ (Formula 2)}$$

In the above formula, G_v is the growth rate of gross output (national income); G_k and G_l are respectively the growth rate of capital input and labor input, a and B are respectively the receipt or income share of capital and labor; $a + B = 1$; $(aG_k + BG_l)$ is the growth rate of input of all essential elements. GA is the growth rate of the productivity of all essential elements. Using GF to replace $(aG_k + BG_l)$, we have $GA = G_v - G_l$, (Formula 3), that is, the growth rate of the productivity of all essential elements equals the difference between the growth rates of national income and the input of all the essential elements. By means of formula 3 and the several indices in the foreign, and through use of the relevant statistical materials we can obtain the results indicated in Table 1 below:

Table 1: Comparison of the Stages of the Output and Input of State-run Industry With the Growth in Production Rate of all Elements

				annual average (%)	
Year	Growth of National Income ¹	Growth of Capital Input	Growth of Labor Input	Input Growth, All Elements	Production Rate and Growth, All Elements
		A, B		A, B ²	
1979-1988	6.85 (100)	7.77 ³ (68.0—45.4) ⁵	3.03 (17.7—26.6)	5.87—4.93 (85.7)—(72.0)	0.98—1.92 (14.3)—(28.0)
1953-1978	11.74 (100)	13.90 (71.0—47.4)	9.41 ⁴ (32.0—48.1)	12.10—11.21 (103.1)—(95.5)	-0.36—0.53 (-3.1)—(4.5)
1979—1983	5.78 (100)	5.22 (54.2—36.2)	2.96 (20.4—30.6)	4.31—3.86 (74.6)—(66.8)	1.47—1.92 (25.4)—(33.2)
1984-1988	7.86 (100)	10.27 (78.4—52.3)	3.09 (15.8—23.5)	7.40—5.96 (94.1)—(75.8)	0.46—1.90 (5.9)—(24.2)
1953-1988	10.34 (100)	12.04 (69.8—46.6)	7.69 (29.8—44.6)	10.30—9.43 (99.6)—(91.2)	0.04—0.91 (0.4)—(8.8)

Notes: (1) Average annual growth rate of national income computed according to Formula 1 above; of it, the figures of the ratios occupied by the net output value in gross output value of state-run industries and all industries are replaced by figures of industries of the same category which do independent accounting. Because of the lack of comparative data in this connection before 1978, in computing the figures for 1953 to 1978, we have replaced them by using one-half of the figures of the differences in the ratios between state-run industries and all industries in the last 10 years. In computing the figures for 1953 to 1988, we used two-thirds of these differences in replacement.

(2) A and B portions are respectively the results of computation of labor and capital funds according to different receipt portions.

(3) The net value of the 1988 fixed assets was estimated according to the original value of the fixed assets of that year.

(4) Because before 1957 the figures of staff members and workers of industry under the system of ownership by the whole people included the three sources of industries run jointly by public and private interests, cooperative societies and private interests, whereas for the same year the figures of gross output value of industry owned by the whole people included only that of industries run jointly by public and private interests and did not include the figures of the other two sources, hence in our computations we have excluded the figures of the staff members and workers of the other two sources so that comparison may be more accurately made on the same calibre. The same computation method was also applied to the figures of the increase in labor input from 1953 to 1988.

(5) Figures in brackets consisted of the contribution rate or function rate of the growth of essential elements or their productivity to economic growth.

Sources of information: *Statistical Yearbook of China*, Various years, 1986 to 1989; *Economic Statistical Yearbook of China's Industries 1989*; *Economic Statistical Materials on China's Industries (1949 to 1984)*, published by the China Statistics Publishing House, 1985 edition, and "Statistical Materials on Labor Wages in China (1949 to 1985)," published by the China Statistics Publishing House, 1985 edition.

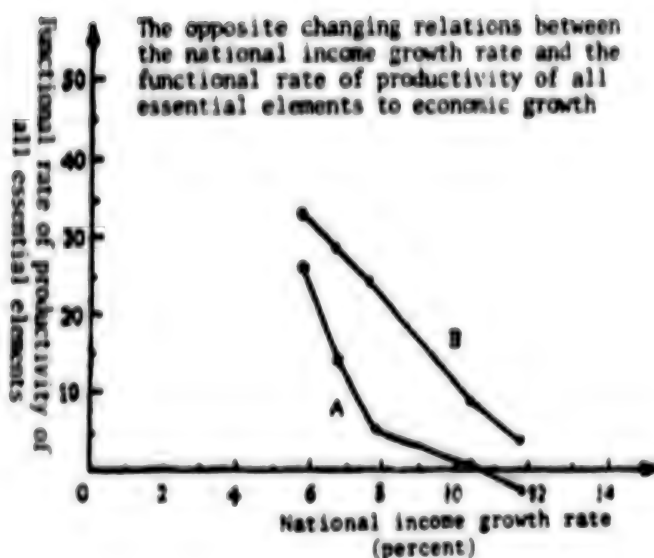
Table 1 above reflects the following two conditions:

1. Relative to comparative figures for four different stages or periods. First, comparison between 1979-1988 and 1953-1978. Over the past 10 years, although the growth rate of state-run industries was far lower than that in the preceding 27 years (this is related to the rapid development of industries under other ownership systems), yet the productivity of all essential elements has grown greatly and speedily. From 1953 to 1978 the national economy's average annual growth rate was as high as 11.74 percent, but the growth brought about by the productivity of all essential elements was -0.36 to 0.53 percent. The contribution rate of the growth of productivity to the increase in output was between -3.1 percent to 4.5 percent (near to part A, -3.1 percent). This illustrated that the economic high speed growth was obtained from the large input of capital funds and labor and was also at the price of the low growth and negative growth in the productivity of all essential elements. It shows that the people's practice of extreme economy in living did not bring many benefits and that the continuous expansion of social reproduction did not bring real economic progress. Between 1979 to 1988 the average annual growth rate of the national income was only 6.85 percent, but the growth brought about by the rise in the productivity of all essential elements amounted to 0.98 percent to 1.92 percent and the contribution rate of the growth in productivity to economic growth rose to between 14.3 percent to 2.8 [as published] percent (near to part B, 28 percent); it indicates that the growth in gross output accompanied the continuous growth of the productivity rate, the quality and benefits of the economic growth were greatly raised and thereby more actual benefits were brought to the people with the innate stamina for the further development of the entire economy being strengthened. Obviously, these were the important economic accomplishments of the reform and open door in the past 10 years, and were new achievements with special characteristics different from the past and manifested in the course of the transition from the old to the new structure.

Second, comparison between 1979-1983 and 1984-1988. Splitting the past 10 years into two sections, it may be found that the economic growth of these two sections possessed obviously different characteristics. In the first section (1979-1983), the economy average annual growth was 5.78 percent which belonged to growth at

medium speed and in which capital input increased by 5.22 percent (contributory rate was 54.2 to 36.2 percent), increase in labor input was 2.96 percent (contributory rate was 20.4 to 30.6 percent), growth brought about by the input of all the essential elements was 4.31 to 3.86 percent, growth brought about by the productivity rate of all essential elements amounted to 1.47 to 1.92 percent, and the contributory rate of the growth in productivity to economic growth amounted to 25.4 to 33.2 percent. Obviously, this was economic growth with relatively high effects realized under the conditions of the gross volumes of supply and demand being generally balanced, the structural relations being relatively coordinated and thereby the allocation of resources being relatively rational, and was also a benign cycle and growth manifested by the national economy beginning to be extricated from the shackles of the traditional pattern of seeking high growth speed. In the latter stage, another set of conditions appeared. In this stage (1984-1988), the average annual economic growth rate was 7.86 percent, which belonged to the high speed growth type but capital input was as high as 10.27 percent (increase in labor input was only 3.09 percent), the growth brought by input of all the essential elements was 7.4 to 5.96 percent, while the growth brought by the productivity rate of all the essential elements was only 0.46 to 1.9 percent, and the functional rate of the growth in productivity rate to the economic growth dropped to 5.9 to 24.2 percent. This was a low-effect growth caused by irrational allocation of resources under the conditions of demand inflation and structural imbalance. It was caused by inappropriate market regulation and macro-economic regulation and control getting out of order and also showed the influence by the obstinate guiding thought of the traditional policy of "seeking quick results." Meanwhile, the highspeed growth in the input of capital funds (the functional rate of capital input to economic growth was as high as 78.4 percent and reached the highest level in these several stages) further pushed forward the development of demand inflation and structural imbalance and ultimately developed into the considerably serious currency inflation since the second half year of 1988.

2. Regarding the relations between economic growth speed and changes in the productivity of all the essential elements. From Table 1 it can be seen that in the seven economic growth stages in our analysis, the national



income's growth speed precisely showed an opposite direction of change against the functional rate of the productivity of all essential elements to economic growth. The economic growth rates of these five stages or periods in the order of from high to low were: 11.74 percent (1953-1978), 10.34 percent (1953-1988), 7.86 percent (1984-1988), 6.85 percent (1979-1988) and 5.78 percent (1979-1983). The corresponding functional rates of the productivity rate of all essential elements in the order of from low to high were: -3.1 percent-4.5 percent, 0.4 percent-8.8 percent, 5.9 percent-24.2 percent, 14.3 percent-28 percent and 25.4 percent-33.2 percent. As seen in the following graph, if these points were joined together, they form two curves both slanting toward the lower right: The two curves in the graph show that the high growth speed of our country's economy not only could not raise the functional rate of the productivity of all essential elements but also took the lowering of the productivity as the price paid; and hence the high growth speed could be sustained only by doubling the increase of input. Inevitably this would result in: the more we wanted the economic growth to increase in speed the lower would be the functional rate of the productivity of all essential elements to the economic growth; and the lower the functional rate of productivity, the larger the increase in the ratio of the input would have to be in order to maintain a high-speed economic growth rate. The two form a malignant cycle and the result would be a continuous increase in the input ratio for the unit's output so as to support a high-speed growth which would necessarily lead to a daily inflation in the gross volume of demand. At

the same time, an increase in the input ratio would inevitably increase the slanting to, or strain on, such basic industries and trades as raw materials, energy, electric power, communications, transportation, and so forth. This would make the structural relations daily fall into an imbalanced state. The development in these two directions would soon produce serious effects on the stable and coordinated growth of the national economy and thereby become an important cause for the increase in the periodical undulations of our country's economy.

Economic theoretical circles have universally come to realize that the fundamental cause of demand inflation and structural imbalance lies in the too fast economic growth rate. The results of our research have confirmed this viewpoint, that the basic cause was that the economic high-speed growth led to the lowering of the functional rate of the productivity of all essential elements and thereby the increase in the input ratio. Conversely, the viewpoint that in recent years our country's accumulation rate (or investment rate) was not too high or that the economic growth rate should be speeded up as much as possible could hardly prove that under the conditions of the dropping or becoming negative of the growth rate of the productivity of all the essential elements to maintain a high-speed economic growth would be rational or beneficial. The above analysis has already shown that such a kind of growth rate not only could not bring to the populace many benefits but also could not increase the inner stamina of the economic development. Therefore, many economists have firmly insisted that our country should adopt a policy of pushing an adequate economic growth. The above analysis can lead

us to making the following conclusion: raising the economic growth rate should take as the precondition of the functional rate of the productivity of the all essential elements rising to a definite extent or at least without dropping, otherwise it will cause a rise in demand inflation and structural imbalance, influencing the national economy's stable, coordinated and sustained growth.

In the foregoing we have made a vertical comparison of the several stages or periods of our country's economic growth. Below, we shall make a lateral comparison of the results of the analysis of the factors of our country's growth (in past 10 years and 37 years) with the general conditions of the analysis of the factors of growth in the international sector (see table 2)

Table 2: Growth in Output, Input, Productivity of All Essential Elements: an International Comparison

	Country	China ¹	Developed Countries ²	Developing Countries ³	Yearly Average (%) Central Planning Countries ⁴ (region)
Year	1979-1988	1953-1988	1949-1973	1950-1974	1953-1965
Increase national income	6.85	10.34	5.40	6.30	8.20
Productivity all essential elements	1.92	0.91	2.72	2.00	2.30
Contributory rate	28.0	8.8	50.4	31.7	28.0
Input increase all essential elements	4.93	0.43	2.68	4.30	5.90
Contributory rate	72.0	91.2	49.6	68.3	72.0
Input increase capital	7.77	12.04	5.20	5.50	8.00
Contributory rate	45.4	46.6	37.1	39.5	39.0
Input increase labor	3.03	7.69	1.00	3.30	4.50
Contributory rate	26.6	44.6	12.5	28.7	32.9
Share of receipts capital	40.0	40.0	38.5	45.3	40.0
Share of receipts labor	60.0	60.0	61.5	54.7	60.0

Notes: (1) Figures of China only include those of state-run industries

(2) Figures of developed countries include those of Belgium, Canada, Denmark, France, the Federal Republic of Germany, Italy, Japan, Holland, Norway, Sweden, Britain, and the United States—altogether 12 countries and 19 groupings; results of the analysis are in averages; the time period is generally between 1949-1973, and for certain individual countries the time period extended to 1947

(3) Figures of developing countries are those of 29 countries including Argentina, Brazil, Chile, Colombia, Ecuador, Greece, Honduras, Hong Kong, India, Ireland, Israel, South Korea, Mexico, Peru, the Philippines, Singapore, Spain, Taiwan, Turkey, and Venezuela; these countries and regions were divided into 30 groups and the results of the analysis were in averages; the time period was between 1953 and 1965, and for certain individual countries the time period was extended to 1979. The figures for India included the manufacturing industry

(4) Figures of central planning countries are those of seven countries in seven groupings including Bulgaria, Czechoslovakia, Hungary, Poland, Romania, the Soviet Union, and Yugoslavia and the results of the analysis were in averages; the time period was generally between 1953-1965, and for certain individual countries the time period was extended to 1962 and 1963. The figures of the various countries included those of the manufacturing industry. Sources of data: the sources of the figures of China were same as those for Table 1. Figures for foreign countries were based on the publications of Qian Neli and others: "A Comparative Research on Industrialization and Economic Growth" published by the Sanlian Publishing House, 1989 edition, pp 29-33, with certain adjustments made. Of them, the figures of the contributory rate to economic growth from the growth in productivity of all essential elements and the growth of the various essential elements and productivity were all computed anew according to our method of computation, that is, excluding the influences of different effects on different types of capital assets and labor of different effects on different types of capital assets and labor of different qualities (not considering the quality changes of the input of essential elements). This exclusion is necessary because only by doing can a rational comparison be made on results from computation made from the same method.

Table 2 provides us with comparative figures on the following two aspects:

First, seen from the growth in input and productivity of all essential elements, growth of the output of developed countries was at a medium speed (5.4 percent), but the growth of the productivity of all essential elements was rather fast (2.72 percent) and the contributory rate to the gross growth was as high as 50.4 percent; growth of the output of developing countries was a little faster, but the

growth of the input of all the essential elements occupied a rather large ratio (68.3 percent), the growth of the productivity of all essential elements was only 20 percent and the contributory rate to gross growth was 31.7 percent; figures of the central planning countries and our country included only the manufacturing industry (state-run industries in our country), the growth speed of the output and input of this department was much higher than that of other departments, the growth of the productivity of all essential elements was generally faster,

but in the central planning countries the contributory rate of the growth in productivity to growth in output was only 28 percent, lower than the average level of the developing countries; in our country, from 1953 to 1988, the growth of the input of all the essential elements was as high as 9.43 percent but the contribution of the productivity of all essential elements to gross output was only 8.8 percent, far lower than the average level of the various types of countries, from 1979 to 1988 this figure rose to 28 percent which was identical with the average figure of the central planning countries 32.9 percent. In comparison, the growth speed of capital input in our country was clearly too fast, from 1953 to 1988 the growth in capital input amounted to 12.04 percent, from 1979 to 1988 it was still 7.77 percent; the contributory rate of capital input to gross output was as high as 45.4 percent, far exceeding the averages of the various categories of countries (higher than the developed countries by 8.3 percent, the developing countries by 5.9 percent, and the central planning countries by 6.4 percent). Conversely, in the past 10 years, the growth speed in labor input was rather low, the contributory rate of labor input to gross growth was only 26.6 percent and was clearly lower than the average level of the central planning countries and developing countries (lower than the former by 6.3 percent and the latter by 2.1 percent). So far as such a large developing country like of ours, which possesses plentiful labor resources but is extremely short of capital funds, is concerned, this condition of the allocation of resources obviously was extremely irrational and also deviated from the characteristics of the input of the essential elements of production at the economic development stage our country was finding itself. It cannot but affect the effective growth of our country's national economy and particularly leads to the effects of the economic growth being rather poor and to the people attaining fewer actual benefits.

If we link together Table 1 and Table 2, we can discover that the growth of capital input exceeding the growth of production is a major cause of the functional rate of the productivity of all essential elements dropping or tending to the low side. Seen from a vertical comparison of the several growth stages of our country, 1979-1983 was the only period in which the growth of capital input was lower than the growth output (lower by 0.56 percent) and it was also the period in which the functional rate of the productivity of all essential elements far exceeded other periods (higher by 25.4 percent to 33.2 percent), whereas from 1984 to 1988 capital input exceeded output growth by 2.41 percent and all at once the functional rate of the productivity of all essential elements dropped by 19.5-9 percent compared with the preceding period (which dropped to 5.9-24.2 percent). The conditions of the other stages of growth also proved this point. Seen from the lateral comparison between our country and internationally in the analysis of growth factors, our country was the only nation in which the growth of capital input exceeded the growth of output and was also a country showing the lowest contributory rate of the productivity of the all essential elements; in

the past 10 years, the condition of growth has greatly improved, but the growth in capital input still exceeded output growth by 0.92 percent. Correspondingly, the contributory rate of the productivity of all essential elements was lower than the average level of the developing countries by 3.7 percent. Obviously this was the result of investment being over heated and thereby causing inappropriate allocation of resources. It can be anticipated that if the growth of capital input exceeded in a sustained manner the output growth, then it will be difficult to change the state of demand inflation and structural imbalance.

III. Enlightenment From Analysis of Economic Growth

From the foregoing analysis on the factors and effects of our country's economic growth in the past 10 years, we can derive certain points of enlightenment. This can remind us that in the next round of economic growth we should attach importance to handling the following two problems well.

1. Relations between the growth of the national economy and the growth in the productivity of all essential elements.

Modern economic growth takes as its nucleus the continuous growth of the productivity of all essential elements, only through the establishment of the foundation for the continuous rise of the functional rate of the productivity of all the essential elements can the economy grow at a high speed and can the growth process be ameliorated and maintain a benign cycle. For example, in Japan, from 1955 to 1962 the annual output growth was 10.35 percent, while the growth brought along by the productivity of all the essential elements was 6.5 percent and the functional rate of the growth of productivity to economic growth was as high as 62.8 percent; in West Germany, from 1950 to 1962 the annual output growth was 7.26 percent, while the growth brought along by the productivity of all the essential elements was 4.75 percent and the functional rate of the growth in productivity to economic growth was as high as 65.4 percent.⁵ (Quoted from Toshio Saneto "Japan's Economic Development," published in a compilation by the Japan Research Institute of Liaoning University, *Japan's Economic Development*, Liaoning People's Publishing House, 1979 edition, p 34.) This rapid growth in the productivity of all essential elements supported the sustained growth at high speed of these two countries economies, and promoted the coordination and heightening of the growth process. In contrast, certain developing countries and central planning countries, under the conditions of the slow growth of the productivity of all essential elements devoted great efforts to promoting and maintaining the high speed growth of the national economy and brought about the consequences of the continuous inflation of gross demand and the daily imbalance of the industrial structure, thus taking the road to currency inflation.

On the other hand, the rise in the productivity of all essential elements depends on the quality and speed of the economic growth. If economic growth is obtained principally through the increased input of the essential elements (capital and labor and also through a large quantity of increase to support the high-speed, then it will inevitably lead to the lowering of the functional rate of the productivity of all essential elements. The reason is that the productivity of all essential elements is determined by such factors as technical progress (progress in knowledge), allocation of resources, and dimensional effects. Continuous increase in capital and labor input to increase the production ability in essence belongs to expanded reproduction of the outer extension or extensive type. This quantitative type of growth pattern in itself restricts the development of technical transformation and technical renovation and is disadvantageous to technical (knowledge) progress and the improvement of production quality; the standstill of the technical level and the production pattern becoming aged and antiquated further hinder the effective allocation and reallocation of the essential elements of production and effects the improvement and amelioration of the condition of the allocation of resources. Moreover, using the quantitative increase in the input of capital and labor to push forward high-speed economic growth invariably will make the economy become over heated and thereby will lead to the fall in the gross effects of the general technological level and the allocation of resources. Although the expansion of the production scale is to a certain degree beneficial to the improvement in the dimensional effects, yet because economic over heating cannot avoid the appearance of the two kinds of production conditions of either exceeding the dimensional limits or becoming smaller than the dimensional demands (the former leads to the lowering of the marginal effects of the input of essential elements while the latter cannot display the functions of the combination of the essential elements), and as a result the general dimensional effects do not go up but go down. In the above analysis it was found that in the several stages of our country's economic high-speed growth the growth rate of the productivity of the all essential elements fell and thereby caused the lowering of the functional rate to economic growth. This was precisely formed by the causes on these three sides.

Therefore, to ensure the benign growth of our country's economy, it is necessary to maintain an adequate growth speed, take as the precondition a definite rise in the functional rate of the productivity of all the essential elements and at least not its fall, and thereby create an economic environment in which gross supply and demand are basically balanced and the structural relations are relatively coordinated so as to push the economic operations to become normal and rational. At the same time, through a relatively loose economic environment and benign economic operations, we should speed up technological progress, improve the allocation of resources, raise the dimensional effects, and promote the relatively fast growth of the productivity of all essential

elements and the continuous rise in its functional rate to economic growth. Only by so doing can the national economy gradually proceed on the track of sustained and ameliorated growth. 2. Relations between investment growth speed and economic growth speed

Too fast investment growth is an important phase affecting an economy's stable growth. Recently, many comrades have employed the investment rate method to judge whether or not our country's investment scale is rational, that is, through measuring the ratio occupied by our country's annual fixed assets investment (or gross investments) in the GNP and comparing it with the state's investment rate which is close to the economic development level, and to obtain a conclusion therefrom.⁹(For example, Sun Junghong's article "Research on the Evidences of the Stature of the Gross Volume of China's Investments, 1979-1988," JINGJI YANJIU issue No. 4, 1990.) But such a judgment method neglected the following problem: Whether or not the investment scale is rational not only depends on a comparison with the investment rate but also requires watching whether or not the economic growth speed is rational. If the economic growth rate is itself too high (this state of the economic growth rate being too high is a manifestation of economic over heating and itself has been promoted by the investment growth being too fast). Thus, under the conditions of the rapid growth of the GNP, a "rational" investment rate is only the result of the "boat rising high due to the rise in the water level," and in it the irrational factors have already been included. The foregoing analysis of the growth factors has shown: seen from our country's conditions, too high an economic growth rate will lead to the lowering of the functional rate of the productivity of all the essential elements and the growth of capital input exceeding output growth will lead to the lowering of the allocation effects of the resources. Both of these conditions will lead to demand inflation and structural imbalance. Hence, whether or not the investment scale is rational can be judged by whether or not the economic growth rate is rational and whether or not investment growth has exceeded economic growth. Some comrades, through analyzing such factors as our country's accumulation rate, capital production rate, rate of enhancement of per capita consumption level, supply capacity of "short-line" industries, and so forth, suggested that our country's growth (annual growth rate of national income) be fixed at a low limit of 5.2 percent, a medium limit of 6-7.5 percent and a top limit of 9.7 percent.¹¹(See article by Zheng Shousheng and others: "Initial Study on the Medium and Long-Term Stable Growth of the Chinese Economy," JINGJI YANJIU, Issue No. 2, 1990). This proposition is made on the basis of a comprehensive analysis on various phases, such as regarding our country's financial power, material strength, "long-line" and "short-line" replacement relations, capacity of utilizing foreign capital, and so forth. It is relatively speaking rational and workable. Based on this, we have the following standards for judgment: if the growth speed of

national income is between 5.2-7.5 percent, and investment growth (after deducting the price factor) does not exceed the economic growth, then the investment scale is rational; if the growth speed of the national income is higher than 9.7 percent and the investment growth also exceeds the economic growth then it is obviously investment inflation; if the growth speed of the national income is between 7.5-9.7 percent and the investment growth also lies within these two percentages but exceeds the economic growth rate, then it may be regarded as the investment scale tending toward the large side. Other conditions may be concretely analyzed according to these three standards. But it should be pointed out: if only after deduction of the price factor the actual investment growth exceeds 9.7 percent, then the investment scale is naturally irrational.

Based on the above-mentioned standard of judgement, we may analyse the problem of investment growth over the past 10 years. From 1979 to 1988, the average annual growth of our country's national income was 9.2 percent, after deducting the price factor the average annual growth of society's fixed assets investments was 9.6 percent, the latter's comparative ratio with the former was 1.04 and hence the actual investment scale obviously tended toward the high side. Of this, from 1979 to 1983 the growth of the national income was 7.29 percent, the growth of society's investments was 6.69 percent, the average comparative rate between the latter and the former was 0.92, and hence the investment scale was basically rational; but from 1984 to 1988, the growth of the national income was 11.2 percent, after deduction of price changes the growth of whole society's investment was 11.98 percent, the average annual growth of the latter in comparison with the former was 1.07, and thus under the conditions of the high-speed growth of economy the even higher growth of investment illustrated that the actual investment scale was obviously inflated.^{1,2} (Here the coefficients of the price deductions on social fixed assets investments adopted were: 1979-1983, 1.082; 1979-1988, 1.932, price indices of investment goods drawn from article by Guo Shuqing and others "Problem of Our Country's Accumulation Level in Recent Years," JINGJI YANJIU, 1990, issue No. 1, P. 23.) This was an important reason for the continual aggravation of demand inflation and structural imbalance since 1984. Moreover, because of investment inflation and overheating of the economy reciprocally playing their role, this pushed the large-scale rise in the general price level. Ultimately it had to begin with improvement of currency inflation culminating with announcing the end of the process of the high speed growth of the economy.

Therefore, in order to push forward the stable and coordinated growth of our country's economy, it is necessary to control the investment growth speed. In the course of the structural reform, it is necessary to stem the expansion wishes and investment enthusiasm of the local governments. Although raising as much as possible the investment rate carries an important significance at the

present stage of our country's economic development, too fast an investment growth can only lead to the lowering of the investment effects and resources allocation effects. Only through maintaining the investment rate at an appropriate level can it be beneficial to the national economy's sustained growth and ameliorated development. Hence, after fixing an appropriate growth rate for the national income, the social investment growth rate after deduction of the price changes generally should not exceed the economic growth rate. At the same time, we should, through the effective guidance of the macroeconomic mechanism and the rational regulation by market mechanism, make social investment slant more toward the basic industrial departments such as raw materials, energy resources, electric power, communications, transportation, and agriculture, and through the various departments' suitable but imbalanced growth promote the coordination of the industrial structure. The investment structure should slant more to the sides of technical transformation, technical renovation, and scientific and technical development and, simultaneously with enhancing the production capacity, perform more work on pushing technological progress. Only by so doing, can we ensure the effective growth of the economy, the gradual elimination of the sources of demand inflation and promote the orderly evolution and advancement of the industrial structure.

Enterprise Contracting, Working Capital Management

91CE0224A Taiwan JINGJI WENTI [ECONOMIC PROBLEMS] in Chinese No 11, 25 Nov 90 pp 51-53

[Article by Wang Quanmiao (3123 8693) and Gu Changxiang (0657 7022 7100): "Enterprise Contracting and Working Capital Management"]

[Excerpt] Working capital is a basic element that enterprises depend on for their survival. How working capital is utilized reflects the state of operations of the enterprise overall as well as the extent to which economic mechanisms are coordinated with one another and how they function as a whole. Over 90 percent of China's industrial and commercial enterprises owned by the whole people have adopted the contracting system. Improving the ways, methods, and policies of working capital management in contracting enterprises is enormously significant for making economic rectification a success and improving the profitability of enterprises and the economic results of the entire national economy.

1 The Plight of Working Capital

The adoption of the contracting system has injected new life into enterprises and mobilized the initiative of operators and workers alike, significantly improving the economic results of industrial and commercial enterprises. Because of problems in its management and utilization, however, working capital has become a serious impediment to enterprise development since the second half of 1989.

1) Insufficient supply. In recent years banks have pumped a large amount of credit into enterprises. Meanwhile, however, the scale of existing enterprises has kept on expanding while the number of new enterprises continues to rise. The prices of raw materials, fuels, and energy have gone up and up in an endless spiral. Hence the wide gap between the supply and demand of working capital, which has become a major constraint on economic development. According to a survey on 16 industrial enterprises directly under the prefecture in the Yuncheng area, the balance of their working capital loans was 89.38 million yuan at the end of 1989, up 63.57 percent over 1986. In the same period, the total costs of all output rose 156.81 percent. Based on the 1986 total unit product costs as a percentage of working capital, it would take an additional 42.23 million yuan in working capital to complete the production tasks of 1989, which means a shortfall of 47 percent. Now let us look at the ratio between the original value of fixed assets and working capital and the price factor. By 1989, the original value of the fixed assets of the above mentioned enterprises had risen 68.28 million yuan. Assuming that every 100 yuan in the original value of fixed assets accounted for 37.5 yuan in working capital, an extra 25.61 million yuan in working capital was needed in 1989. Between 1987 and 1989, the retail price index rose 9.1 percent, 24.4 percent, and 19.6 percent, respectively. Taking the 1986 balance on working capital loans—68.30 million yuan—as a base, a fixed amount of 10.86 million yuan in working capital was needed in 1989. Add the extra working capital needed as a result of the increase in the original value of fixed assets, we have a total of 136.47 million yuan, producing a working capital shortfall of 20.92 million yuan, or 23.4 percent.

2) Improper utilization. The improper utilization of working capital has widened the supply-demand gap. To begin with, the structure of fixed working capital is not sound; finished products tie up an excessive amount of working capital. In 1986, the finished products of industrial enterprises directly under the prefecture in Yuncheng accounted for 23.1 percent of the funds. By 1989, the figure had risen to 36.5 percent, up 13.4 percentage points. In 1986, the amount of funds taken up was 15.72 million yuan. By 1989, the figure had risen to 42.22 million yuan, a 168 percent increase. Inventories have been piling up in warehouses, tying up reserve funds and production funds and seriously affecting normal enterprise production. Second, in 1986, 16.82 percent of non-fixed working capital was tied up. In 1989, it was 40.39 percent, up 23 percentage points. A large amount of funds is "in transit" and cannot be collected in time to be reutilized. Some enterprises have failed for years to recover account settlement funds, which now account for 50 to 70 percent of their total working capital. Furthermore, some enterprises have been financing technological transformation and capital construction with working capital without the proper authorization. All this has exacerbated the shortage of working capital.

3) Serious losses. For a variety of reasons, large amounts of working capital have become problematic or lost in the course of circulation. In 1987 an assets appraisal was conducted on industrial enterprises directly under the prefecture in Yuncheng when they adopted contracting. The appraisal turned up 10 enterprises whose funds had problems. Losses still to be made good and losses resulting from the scrapping of some products and price cuts worth a total of 6,868,000 yuan were discovered. Add the working capital used to cover budget overruns on capital construction and technological transformation, and the total comes to 8,524,000 yuan, 10.3 percent of the total working capital balance for the year in question. After two years of contracting, the enterprises managed to absorb some of the losses. Even as of late 1989, however, they still had 6.95 million yuan in problem funds, 4.5 percent of their total working capital balance that year.

4) Enterprises have little enthusiasm to supplement working capital. Under national regulations, enterprises must use a specified percentage of their retained profits to supplement working capital. In reality, though, only a small sum of money is allocated for such a purpose. According to statistics, before 1986 industrial enterprises directly under the prefecture in Yuncheng had less than 800,000 yuan in working capital between them. To make sure that enterprises really supplement their working capital, five provincial departments jointly issued regulations in 1989 mandating that enterprises supplement their working capital to the tune of 7,632,000 yuan that year. As it turned out, the enterprises supplemented 6,243,000 yuan, 81.7 percent of, or 1,390,000 yuan less than, the required amount.

2 The Crux of the Problem

There are various reasons for the problems that have appeared in the management and utilization of working capital. Generally speaking, these are the major factors.

1) Institutional factors. Nominally speaking, what we have under the existing working capital management system is centralized management by the People's Bank of China. Actually, what we really have is multi-head management by specialized banks. People's banks at all levels below the provincial level neither involve themselves in the actual lending business nor have the authority to make planned transfers. There is a measure of rigidity in the management and utilization of working capital, which misleads people into thinking that fund shortages in a region, trade, or season are universal fund shortages. Specialized banks have no administrative responsibilities and are not authorized to make policies on or determine the amounts of working capital. Although they are run like an enterprise, they assume only limited responsibility for the profitability and risk of fund utilization. As a result, the fixed amounts of enterprise working capital have gone unchecked ever since 1984 and there is no scientific basis for bank control over enterprise credit. There are also no restraints on the use of working capital by enterprises. It

is common for grassroots credit organizations to make loans on the basis of "feelings" or "connections." As a result, what limited credit funds there are are not utilized properly. The examination and approval of capital construction and technological transformation projects is divorced from the supply of working capital. Capital construction projects are examined and approved by the planning commission while office-building loans and *chi gai* [2170 2395] projects are examined and approved by the economic planning commission. Funds are being put into circulation through multiple channels. The working capital required after a project goes into operation is usually supplied by specialized banks. Such lack of coordination has caused immense difficulties for the planned supply of working capital by banks.

2) Policy factors. In the course of economic structural reform, the state has unveiled a string of reform measures, but because insufficient attention was given to coordination, even reform has created some difficulties for the management and utilization of working capital. First of all, short-term contracting induces short-sighted behavior. The enterprise contracting period is three years in most cases. The operator is too preoccupied with the pursuit of output value and profits and the improvement of worker benefits and bonuses during his tenure to think about long-term planning or pay attention to supplementing working capital. Second, the psychology of inflation has resulted in more working capital being misused. To straighten out price relations, the state has been adjusting the prices of upstream products continuously, which has led most enterprises to think inflationary, always anxious to stock up a little extra raw materials before prices are adjusted. The inevitable upshot: more working capital being misused and for longer periods. Third, the half-hearted implementation of the enterprise bankruptcy and merger policy has worsened fund losses. The water turbogenerator plant and shoe plant in the Yuncheng area has been losing money for years, tying up 3.56 million yuan in working capital. Although their liabilities almost exceed their assets, the plants have not gone into bankruptcy or been merged. Consequently, the large amount of lost funds has not been recovered.

3) Administrative factors. There has been a traditional tendency among governments at all levels to pursue high output value and large-scale development. To a certain extent this tendency has exacerbated the shortage of working capital. To fulfill the tasks assigned by the higher level and secure a good ranking, governments put pressure on enterprises to fulfill the plan and demand output value. To give a good accounting, the enterprise keeps on turning out merchandise even as unsold goods pile up, greatly increasing the amount of funds tied up in finished products. To improve local economic muscle, the government courts projects and searches for funds everywhere, expanding the scale of construction endlessly, passing onto the banks the burden of rising working capital, and upsetting the balance between fixed assets and working capital as they increase. To improve

local financial resources, the government is always looking for ways to squeeze a little more money out of enterprises to help narrow the gap between revenues and expenditures. To be able to turn over more to the state and pay their workers better, enterprises have no choice but to resort to the working capital, some enterprises supplement working capital in a very small way or not at all while others use working capital as payments to the government. To ensure political stability, the government tries to prop up mismanaged enterprises, demanding that banks make loans to them so that they can keep on churning out goods nobody will buy. Sometimes the enterprises even go as far as to use bank loans to pay workers, further hastening the loss of working capital.

4) Enterprise factors. The enterprise is the party ultimately responsible for working capital. The quality of an enterprise and the caliber of its manager have a profound impact upon the management and utilization of its working capital. The management standards of Chinese enterprises were low to begin with. After the adoption of the contracting system, contracting has come to replace management so that instead of improving, enterprise management standards have actually declined. We have done a study on one enterprise. Because of a slackening in quality control and market sluggishness, goods were overstocked and it fell badly behind in payments. By late 1989, finished products tied up as much as 40.5 percent of its fixed working capital and overdue loans amounted to 55.4 percent of all working capital. Its debts to banks soared and profitability shrank. Output value and profits declined 42.4 percent and 42.9 percent, respectively, compared to 1988. Moreover, driven by the interest motive, the enterprise tends to spend its retained profits on welfare and bonus payments, technological transformation, and capital construction, making the burden of working capital loans on banks even heavier. [Passage omitted].

'Double-Guarantee' Enterprises Achieve Better Results

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in Chinese 3 Jan 91 p 1

[Text] Based on the most recent State Statistics Bureau data, between January and November 1990, the production, sales, and profits fulfilled by "double-guarantee" enterprises in China were higher than the averages of in-budget industrial enterprises.

According to statistics, between January and November, the gross value of industrial production of "double-guarantee" enterprises was 176.54 billion yuan (based on 1980 constant prices), a 2.9-percent increase over the same period in the previous year. Of this, the gross industrial production of 15.28 billion yuan completed in November was 3.8 percent higher than the corresponding period in the previous year. It was also 4.1

percent higher than the 0.3-percent decrease registered by other in-budget enterprises (other than the "double-guarantee" enterprises).

From January to November, product sales by "double-guarantee" enterprises reached 276 billion yuan (at current prices), a nine-percent increase over the same period in the previous year and six percent higher than the rate of increase achieved by other in-budget enterprises. Of this, November sales were 28.92 billion yuan, a 14.5-percent increase over the corresponding period in the previous year. Although this is 1.8 percent lower than the increase shown in October, it is nonetheless significantly higher than that of the other in-budget enterprises, which declined by an average of 5.6 percent. Thus, in-budget enterprises were able to show a 0.5-percent sales increase in November because of the sales increase of "double-guarantee" enterprises.

From January to November, "double-guarantee" enterprises realized 10.5 billion yuan of accumulated profits, a decline of 42.2 percent compared with the corresponding period in the previous year, but lower than the 64.1 percent decline in other in-budget enterprises. Of this, profits realized in November amounted to 1.51 billion. Although this amount shows a decline of 10.1 percent over the corresponding period in the previous year, it represents the highest profits made during the second half of 1990 and is more than twice that earned in August, the lowest month.

National Economic Forecast for 1991

91CE0327 Beijing JINGJI CANKAO BAO in Chinese
7 Jan 91 p 4

[Article by Tong Yan (0157 1484): "National Economic Forecast for 1991—Aggregate Social Demand Increases 11 Percent; Aggregate Social Supply Increases 5 Percent; and Inflation Rate Is About 8 Percent"]

[Text] Based on the analysis and forecast of the future of China's economic movement, we think that as long as we refrain from man-made investment and credit expansion, the growth of the national economy will be moderate in 1991 and a wide-range balance will be achieved between demand and supply. However we must be fully aware of the fact that we put in too much money when we tried to give a jump start to the economy and that a large amount of loan has been tied down in the inventory of commodities. Due to this, a relatively large gap of inflation exists between the potential demand and the relatively low economic growth. And under the conditions of rising cost and price control, it is impossible to offset price increases with enterprise efficiency. As a result, the factor of potential instability still exists in economic movements.

Forecast on Aggregate Social Demand

We predict that economic growth in 1991 will be the demand-pull type as in 1990.

Forecasts for the growth of various demands in 1991 are:

1) The fixed asset investment of whole society will increase about 10 percent, of which, enterprises' self-raised funds and urban and rural residents' individual investment will remain the same as last year and state investment, foreign loans, and investment loans may increase. However, the scale of fixed asset investment is unlikely to reach 500 billion yuan as stipulated in the plan. 2) Workers' and peasants' incomes will increase about 8.5 percent. The growth factor of workers' wage will be smaller than last year's, between 12 and 15 percent, and the increase of peasants income from the sales of agricultural products will be smaller than the increase of output value. Plus the increase of peasants' other incomes, the gross increase rate of peasants' income will be between 5 and 8 percent. The increase of other laborers' income will be around 15 percent. 3) The growth of people's consumption demand will be faster than last year, reaching about 10 percent. The increase of basic living consumption will be the same as price increase, the increase of durable goods consumption will be higher than last year's, about 15 percent, the increase of noncommercial consumption will be approximately 20 percent. After deducting the consumption demand, the increase rate of people's savings deposits will be between 10 to 15 percent. 4) The consumption demand of social groups will be relaxed and its increase rate will be around 15 percent. 5) The increase rate of export demand will surpass last year's figure and reach about 25 percent.

Based on the ratios of various demands to the aggregate demand, the increase rate of aggregate social demand will be around 11 percent in 1991. Such an increase rate is appropriate, so the market will not be affected as far as the aggregate demand is concerned. We should notice however that the demand of circulating funds may have unfavorable effects on the market of some undersupplied capital goods.

Increase of Supply of Basic Industries Will Be Greater

The general situation of the supply of basic industries will be promising in 1991. 1) Agricultural production will maintain an increase rate of 2 to 3 percent. Grain output may be lower than this year's figure and suffer a decline of 2 to 4 percent. Other trades will all have moderate growth. 2) Power output will further increase on the basis of major construction projects of the Seventh Five-Year Plan and the increase is estimated at around 8 percent. 3) The raw materials industry including iron and steel may increase 6 to 10 percent, of which chemical raw materials will have a greater increase. 4) Last year's phenomenon of insufficient use of transport capacity will be eliminated. The transport volume will increase along with the growth of industry and the building industry. The volume of freight is estimated to increase 3 to 5 percent, and the post and telecommunications industry to surpass 7 percent.

Forecasts on Aggregate Social Supply

After comparing the impacts of the increases of above factors on the increase rates of GNP since 1985, we think that the GNP may increase 8 to 10 percent in 1991. The pulling effect of demand on the economy will play a main role in the growth of 1991. It will affect the operating capacity of the processing industry, so we must study the concrete impact of demand on economic growth. Judged by the pulling effect of people's consumption demand on industrial growth, the light industry may increase around 8.5 percent. Any growth higher than 8.5 percent will inevitably result in new stockpiling. Judged by the pulling effect of increasing investment demand on the heavy industry, the heavy industry may increase about 7.3 percent. After combining the speeds, the total industrial output value may increase about 8 percent, higher than last year's figure. Taking into account such estimated factors as 2 to 3 percent growth of agriculture, 5 percent growth of the building industry, 3 to 5 percent growth of the transport industry, and 5 percent growth of commerce, the increase of total social output value as a result of the influence of the aggregate demand will not exceed 8 percent in 1991 and the increase of GNP will not exceed 5.5 percent. We predict that the increase rate of GNP, namely the aggregate social supply, will be around 5 percent.

The Market May Be Balanced Within a Certain Range

In 1991 further increases in social supply and a greater inventory of commodities will strengthen the factor of market stability. If the state does not expand demand artificially through financial deficits and credit expansion, this balanced situation will continue and create a precondition for the sound development of the economy.

Judged from the current arrangements of the state, this year's measures for the control of deficits and credit scale are effective. We predict that both demand and supply sides will have moderate development. Judged from the gap between demand and supply, there will be a difference of about 6 percent which can be absorbed by an appropriate price increase. Plus the factor of automatic price increases on the market, total price increase will be between 8 to 10 percent in 1991. It is also very likely that the total price increase will be as small as about 8 percent.

Enterprises To Implement Registration of State Assets

State Organs Issue Circular

91P30114A Beijing JINGJI RIBAO in Chinese
17 Jan 91 p 1

[Text] A few days ago the State Administration for State Property, the Ministry of Finance, and the State Administration for Industry and Commerce issued a circular requesting relevant units to follow procedures for registering property rights. Entitled "Management Measures

for Registering Property Rights of State Assets (Trial Implementation)," the circular states: Registration of state assets is a legal measure by which the state asset management departments, representing the state, organize property rights registration of all duly owned state assets, obtain proof of ownership, and acknowledge the right of units that possess and use state assets to operate them.

The circular pointed out that all enterprises and their managing units which possess and use state assets (hereafter referred to as enterprise units) must report to the state asset management departments and follow procedures for property rights registration according to regulations.

Management of state assets property rights registration should be organized and carried out by the State Administration for State Property along with its branch offices at various local levels. For those locations which have not yet set up state asset management organs, the procedure for registering property rights will be handled by the finance department.

The circular emphasizes that enterprises undergoing separation, merger, relocation, or disbanding should apply to the state asset management department to make changes in property rights registration within 30 days of approval by a governing body or an examination and approval unit. State assets must be checked, evaluated, and registered into books based on state regulations, and any handing-over procedure must be conducted properly to prevent state assets from being seized, stolen, or divided in a disguised form.

Should enterprise unit fail to implement this order, the finance department, the enterprise governing unit, or any financial affairs management unit recognized by the finance department may refuse to furnish a capital credit certificate; industrial and commercial management organs may refuse to register the enterprise; the state asset management departments also have the right to recommend that the governing unit mete out administrative penalties to the enterprise's legal representative.

Commentary: Registration as Commodity Economy Practice

91P30114B Beijing JINGJI RIBAO in Chinese
17 Jan p 1

[Text] Recently, departments concerned jointly announced administrative measures regarding trial implementation of state assets property rights registration. This is a major step in realistically enhancing the management of property rights and protecting the whole people's interests.

State assets belong to all the people and are the accumulation of their labor as well as the main material base for their pursuit of self-interest while engaging in socialist modernization. For many years, however, the problem of absence of actual responsibility for state assets has

never been resolved satisfactorily from a system perspective. In real life, situations generally exist where there is no clear accounting of state assets or clear ownership of property rights; this has contributed to the loss and seizure of state assets. This situation is naturally related to the degree of people's concern toward state assets. Nevertheless, the root of the matter lies in the deficiencies of our management system and methods. Registration of state assets is a basic means for improving the management system and carrying out the management of property rights.

The functions of property rights registration are: First, the state asset management departments, acting as the sole representative for owners of state assets, should organize property rights registration for all state assets according to law and obtain legal evidence of ownership. This is the basis and prerequisite for the state asset management departments to administer assets and to implement and reinforce property rights management. Second, concerning units that possess and use state assets, the registration of property rights will clearly indicate the total value of state assets possessed or used and provide them with relevant legal evidence. Thus, these units may use the assets legally and truly establish their legal position in independently using state assets. Third, through the annual registration of property rights, departments concerned may examine and supervise changes in state asset reserves. This will create conditions for tracking, assessing, and evaluating the efficiency of state asset utilization. It will also enable enterprises to develop self-discipline, making them responsible for their own profits and losses, overcoming short-term behavior such as disregarding the preservation or increase of asset value, "eating into old capital," and so forth, and improving economic efficiency.

Conducting property rights registration is a new way to manage property rights based on conventional practices of the commodity economy. Because it is a new thing, it is therefore necessary to experiment and have test points, summarize experience, gradually improve, and expand. We hope departments concerned will attach importance to this matter, combine further rectification with deepening reform, and do the work well and earnestly, thus making property rights registration a truly effective measure for guarding state assets as well as for improving economic efficiency.

New Problems Appear During Market Improvement

91P30113B Beijing JINGJI RIBAO in Chinese
28 Jan 91 p 1

[Text] The situation reported by the State Statistics Bureau indicates that several problems have appeared in the domestic market which warrant our attention: Urban markets improved more quickly while rural markets stayed soft much longer; retail sales of consumer goods bounced back faster among social groups than among the people; adjustment of product mix is slow and the gap

between supply and demand for consumer goods is widening, and economic efficiency in commercial enterprises is declining overall, which affects the potential expansion of operational capacity of state-run businesses and sales cooperatives.

Retail sales of social commodities in 1990 totalled 825.46 billion yuan, a 1.9-percent increase over the previous year. Of this, the retail sales of consumer goods in urban areas was 386.61 billion yuan, a 6 percent increase over the previous year. Compared with the previous year on monthly basis, there has also been a gradual increase since April, 10.9 percent in October, 15 percent in November, and 14.1 percent in December. The market has initially overcome the slump and returned to normal. However, the retail sales of consumer goods in the rural market at county level or below was 335.38 billion yuan, a 2.4-percent decline over the previous year. The rural markets started to improve six months later than the urban markets, and from October to December sales increased by 4.2 percent, 5.4 percent, and 6.7 percent respectively over the same period in the previous year.

Following the relaxation of controls over group purchasing, the retail sales of consumer goods to social groups increased more quickly and reached 72.3 billion yuan in 1990, a 4.3-percent increase over the previous year and 2.6 percent higher than the rate of increase generated by the people during the same period. The ratio of group purchasing increased from 9.8 to 10 percent in total retail sales and reached 16 percent during the fourth quarter.

Due to the slow adjustment of product mix, available goods are generally old in style and lack variety. The supply of superior, quality, brand-name, and inexpensive merchandise is insufficient, post-sales service for high-end goods is inadequate, and cheap imitations and inferior quality goods have filled the market. For the whole year, approximately 80 percent of the purchasing power was realized, a decrease of 4-5 percent over the previous year and the lowest in recent years.

The market upturn did not improve economic efficiency in state and cooperative commercial units. For the whole year, state and cooperative commercial units earned 1.2 billion yuan in profits, a decline of 84.6 percent over the previous year and the lowest since 1953. Of this, there were six months when the entire commercial sector incurred losses and turned the previous year's profits of 4.23 billion yuan to a loss of 160 million yuan. More than one-fourth of the 135,000 state-run commercial enterprises and cooperatives in the country incurred losses, which is unprecedented in history.

To enable the market to continue to develop toward steady growth, people in the economic sector believe that it is necessary to greatly increase the effective supply of industrial and agricultural goods, accelerate adjustment of product mix, quickly straighten out the irrational

price structure, expand the range of people's consumption, selectively establish and develop rural markets, and, at the same time, guard against once more losing control of group purchasing power.

PROVINCIAL

Economic Effects of Exchange Rate Adjustments

91CE0289A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese
No 12, 11 Dec 90 pp 44-47

[Article by Qian Yanmin (6929 1750 2404), Zhejiang Agricultural University, Department of Economic Management, Finance Teaching Group: "On the Actual Economic Results of Foreign Exchange Rate Adjustments in Foreign Trade"]

[Text] In order to alleviate China's foreign trade difficulties, increase international reserves, make use of price competition, and promote the entry of Chinese export products into the international market, China in recent years has carried out relatively large readjustments of the value of the renminbi. Another large readjustment was carried out in December 1989 when it was devalued by 21.2 percent (to 4.70 to the U.S. dollar). This article offers a preliminary analysis of the effect of this devaluation upon China's foreign trade.

I. The Theoretical Basis for Exchange Rate Readjustment

Prior to the program of reform and opening up, the renminbi was used as an accounting tool for foreign trade; its exchange rate had little effect upon foreign trade. After reform and opening up, foreign economic ties became much closer and the scope of trade grew continually, but the trade surplus turned into a deficit. The impediment to trade caused by an overly high exchange rate for the renminbi became more and more pronounced, and made it difficult to reverse the trade deficit due to the lack of price competition. The effort to earn foreign exchange through exports was affected. The purpose of devaluing the renminbi was to use the lever of exchange rates to regulate the price mechanism, strengthen import constraints, and encourage exports, thereby achieving a trade balance. In theory, when the exchange rate for the renminbi drops, the dollars earned by Chinese exporters can be exchanged for more domestic currency. This is due to the fact that even though the price as denominated in the foreign currency remains the same, the quantity of renminbi required to equal the value of that foreign currency is now greater. When domestic prices rise more slowly than does the renminbi cost of foreign exchange as a result of exchange rate readjustments (devaluation of the renminbi, appreciation of foreign currencies), exporting firms can reap huge profits as a result of these foreign exchange readjustments. Furthermore, because the profits are so large, the prices of these export products can be reduced to below international market levels (thus weakening the

competition and expanding markets) without seriously diminishing profits. As for import products, because the exchange rate of the domestic currency has fallen, more renminbi are required to buy an import product even though its price as denominated in a foreign currency has not changed. Thus the price of imports increases immediately, which limits demand for imports.

II. The Vehicle Which Disseminates the Effect of Exchange Readjustments

1. It is hoped that readjustment of relative interests by means of the price mechanism will become the main determinant of the direction of the division of labor in international trade. On the international market, the law of value exerts its full influence. Price fluctuations guide changes in supply and demand. The price ratios between different commodities and the comparison of different exchange rates have become the guideposts by which each successive step in the international division of labor is directed. When the price ratio of a particular commodity exceeds its exchange rate, the country where the price is high would find it advantageous to export that commodity; if the price were lower than the exchange rate, it would be better to import the commodity. In this manner the flow of a commodity is subject to the restraint of the price ratio for that commodity in different countries, and to exchange rate ratios. For example, suppose that for a certain commodity the price in country A is 400 units of currency A, while in country B the price is 100 units of currency B. When the exchange rate is 300/100 (currency A/currency B), it is advantageous for country A to import and for country B to export. When the currency of country A is devalued and the exchange rate becomes 450/100, it would be advantageous for country B rather than A to import. In the former situation, the commodity flow was from country B to country A; in the latter situation it was from country A to country B. In actual international trade, however, there are many competitors, and the situation is more complex; when exchange rates change, commodity flows do not just switch between A and B, but may go to another country. This pattern includes conscious decisions to readjust commodity flows and to choose certain markets.

2. Price elasticity on both the supply and demand sides constrains efforts to improve exports. On the international market, the existence of a buyer's market means that demand determines production (supply), so when you want to export a commodity you must first consider price elasticity on the demand side, and determine supply on the basis of demand. A currency devaluation will only spur increased demand when there is sufficient price elasticity; if there is little or no price elasticity the devaluation will have no effect, and the export-stimulating function of the devaluation will be blocked at this bottleneck no matter how great the price elasticity on the supply side is. When price elasticity on the demand side is relatively great, price elasticity on the supply side is extremely important; it is the material basis for the expectation that devaluation of the currency

can bring about economic readjustment, and the amount of potential for expansion of export production is what indicates the degree of this elasticity. When productive capacity cannot expand immediately in response to an increase in demand, supply elasticity is zero. Under this circumstance supply elasticity can only be achieved over a long period of time by developing export production and cultivating industry, but by that time the price conditions created by any exchange rate readjustment may well have disappeared. From this it is apparent that there must be sufficient elasticity of both demand and supply if a currency devaluation is to have the effect of expanding exports.

3. The key to whether a currency devaluation will inhibit imports is the degree of price elasticity of demand for import commodities. The greater the degree of price elasticity for a given import, the more a currency devaluation will suppress import of that commodity, but is a serious problem if price elasticity for a certain import is completely nonexistent, because demand for that commodity will remain unchanged despite the currency devaluation. The rising price, denominated in the domestic currency, of that commodity cannot depress demand; instead, more domestic currency must be spent to procure the necessary foreign exchange to purchase the commodity. Even more serious is the fact that if the import is an urgently needed production input such as raw material or a piece of machinery, the devaluation will spur domestic cost inflation, which will in turn inhibit exports, which runs counter to the intended effect of the devaluation. As for the elasticity of supply of import commodities, this factor is only relevant when you are trying to expand imports. Since the purpose of a currency devaluation is to restrict imports, this factor need not be discussed here.

After discussing the effect of a currency devaluation on foreign trade we can illustrate more clearly the process by which foreign trade, under ideal conditions, is readjusted after a currency devaluation. Under normal circumstances, during the period immediately following a devaluation, the volume of exports as well as their price (as denominated in the domestic currency), rise relatively slowly. It takes a while for export producers, after perceiving the price signals that result from the fallen exchange rate, to respond by readjusting production; on the other hand, devaluation leads to an immediate rise in the price, as denominated in the domestic currency, of imports. Thus import prices rise faster than export prices. At the same time, the previously determined production plan cannot be changed immediately, pre-existing import contracts must be honored, and above all, a relatively rigid domestic demand for import commodities and production inputs has already formed. The imports are still greatly needed, and an import inertia exists. In this manner, during the period immediately following a currency devaluation, exports do not match imports, and the trade deficit is actually exacerbated. Imports cannot be reduced, exports cannot expand, and the deficit cannot be narrowed until this import inertia

has been eliminated. This is the famous "J-curve effect." From this analysis it is apparent that the effect of a currency devaluation upon foreign trade is complex; it depends on international market conditions and the relationship between export products and import demand and products. The only purpose of a currency devaluation is to provide favorable price conditions for exports.

III. An Evaluation of the Effect of the Devaluation of the Renminbi on China's Foreign Trade

There is a series of intermediate links between a currency devaluation and its effect upon imports and exports, and it is within these links that reality can intervene and cause deviation from the expected economic results of the devaluation. It is indeed true that a devaluation can give China's export commodities an advantage in price competition and can bring the enthusiasm of export enterprises into play, and it is also true that it can reduce import demand by increasing expenditure of foreign reserves. This can help to turn a deficit into a surplus. However, complex factors play a role in the process by which a devaluation works its intended effect. These factors can present difficulties, and under certain conditions cause a devaluation to be counterproductive.

1. The structure of international market demand does not match up well with China's export mix. This robs the export stimulus provided by a currency devaluation of any economic significance. The international market is a buyer's market. The international market for China's current export products is in a slump. Our export product mix is not well suited to the structure of international trade. China's export products consist mainly of traditional large-volume products; the ratio of primary products to manufactured goods is roughly 3:7, and the manufactured goods consist mostly of products which have only been through low level processing. For example, textiles account for one-quarter of all exports, and primary products and products which have only been through low level processing account for about 60 percent of exports, while the proportion of exports accounted for by products which have been through high-level processing is relatively low. For example, electrical machinery accounted for 10.4 percent in 1987. International market demand runs counter to this trend. 1) In international trade, prices for primary products are slumping and show signs of further decline. Furthermore, trade in these types of commodities is declining as a percentage of total trade. World Bank statistics indicate that if we set the base number of 100 for prices from 1979 through 1981, by 1986 prices for noncomestible agricultural products was 58, and for metals and minerals prices stood at 62. These prices showed a trend toward further decline. Under these circumstances it is unlikely that the favorable prices created by devaluation of the renminbi would stimulate exports of primary products. 2) Trade in highly processed products is rising as a percentage of total trade. For example, the proportion of trade accounted for by electrical machinery has risen from one-fifth in the 1950's to one-quarter in the

1960's, and now to one-third. In Japan, electrical machinery already accounts for over 70 percent of exports, and in the Federal Republic of Germany and the United States the figure exceeds 40 percent. 3) Trade in technology is accounting for an increasing proportion of trade while, and trade in high-tech products is developing rapidly. In China, however, this area is completely undeveloped. The poor matching of trade structures described here has led to a discrepancy between the elasticity of supply and demand in our current export structure and international market demand. The overall effect will be to restrict the expansion of exports. Furthermore, elasticity of supply and international demand for China's current export commodities are relatively weak, so a devaluation cannot spur expanded supply even under conditions of expanded demand.

The worldwide trend toward protectionism has weakened the role of the market mechanism and restricted the expansion of China's traditional export commodities. The third wave of protectionism, which arose in the early 1980's, has continued for several years now and is unlikely to diminish. The tactics adopted have relied primarily on nontariff trade barriers, and most of the restrictions have been against labor-intensive products. China's large-volume export products are labor-intensive, so these exports have necessarily been deeply affected; our country would be helpless to do anything about the situation no matter how great supply elasticity was. The United States and Europe have imposed rigorous quotas on textile imports, thus artificially limiting the effect of price elasticity upon demand for these commodities. This has nullified the favorable effect upon prices created by devaluation of the renminbi, and it has forced export commodities that are subject to quota restrictions and other protectionist measures to compete on the basis of quality and price. However, the quality, selection, design, and packaging of Chinese products are clearly inferior on the international market; this seriously detracts from the price advantage of Chinese products.

2. Industrial development and the rigidity of the demand structure within the context of an imbalance in total domestic market volume have caused insufficient elasticity of demand for imports; the result is that it has been difficult to limit imports. Although China's economy is currently experiencing a market slump, this is only because demand is being limited over the short term through a clampdown on investment demand and consumption demand. From a developmental perspective, insufficient supply and structural deficiencies are long-term problems. Because domestic production capacity is insufficient, there is an urgent need to import production-oriented equipment and raw materials in order to make up for the shortfall in domestic supply and to add to productive capacity. Our degree of dependence upon imports is deepening. The proportion of Chinese imports accounted for by production-oriented materials is expanding, in the 1980's it has been between 70 and 80 percent. Furthermore, within this category of goods the

proportion of primary products has been small and the proportion of manufactured goods has been great. This has deprived China's processing industries of the opportunity to process these products into high value-added commodities. Furthermore, within the category of production-oriented manufactured goods, there has been relatively little high-tech equipment but a lot of parts, components, and regular goods. This has made it difficult to achieve import substitution; on the contrary, it has solidified and perpetuated the irrational import structure. The result is that the price elasticity of imports has been rather flat in the face of exchange rate adjustments. Devaluation of our currency has not affected the rigidity of import demand. At the same time, because devaluation results in a higher renminbi price for imports, imports of production-oriented goods inevitably drive up the price of the products in whose manufacturing process they are used as inputs. It is worth noting that many exporting enterprises have always relied upon imported capital goods to manufacture their export products. A currency devaluation drives up their production costs. While the intended result of a currency devaluation is the creation of an advantageous price situation, under these conditions the actual result is precisely the opposite.

3. The current interest distribution mechanism for foreign could cause the profits that result from a currency devaluation to flow to destinations other than those firms engaged in foreign trade, which would make it difficult for devaluation to bring about the intended results. By the term "firms engaged in foreign trade" I refer primarily to firms involved in the marketing (foreign trade corporations, etc.) and production aspects of foreign trade—export producer enterprises and import user enterprises. China's foreign trade activity is now led mainly by firms involved in marketing, while production enterprises provide products and import demand. Foreign marketing enterprises play the role of middleman. Devaluation will inevitably create relatively large economic benefits and will suppress import demand. Advantageous prices promote the expansion of exports, which will bring the intended benefits to both marketing and production firms and spur them to expand procurement and production of export products. However, it is extremely difficult in the real economy to achieve a rational distribution of these benefits. If the flow of the intended benefits is shunted in favor of marketing enterprises (i.e.—if marketing enterprises procure export products at depressed prices or fail to raise procurement prices in response to a currency devaluation), then export producers will not receive the intended benefit, the elasticity of supply would thus be inhibited by the actions of the marketing enterprises, and the devaluation will not do anything to stimulate exports. A devaluation will only have this effect when the benefits flow to export producers, but if there is no profit for marketing firms they will be unenthusiastic about export activities. Furthermore, if export marketing firms do not stop losing money they will continue to require subsidies, thus putting pressure on fiscal resources. As for imports, a

currency devaluation will cause renminbi-denominated import prices to rise. Because of the rigidity of import demand, these price rises will radiate throughout the entire domestic market. This leaves us faced with a choice. Do we use rising prices to discourage imports, or do we hold prices down and use some other method to discourage imports? The former option, which requires a currency devaluation, will indeed discourage imports, but the very serious side effect is that the renminbi price rises that occur within the context of rigid import demand will spur an overall rise in prices. This effect will radiate throughout the economy, increasing the costs associated with export production and weakening the stimulus for export expansion. The latter choice has always been preferable to policy makers. This has required that the prices charged by importing firms for their imported goods (transfer prices are now in use) be controlled in order to prevent rising import costs from diffusing immediately throughout the economy. This forces firms engaged in foreign trade to shoulder the burden of currency devaluation, resulting in losses. Because production-oriented commodities account for a high proportion of China's imports, import reliance is relatively high. If the state is to assure the enthusiasm of export marketing firms, it must inevitably increase subsidies to import firms. For this reason, the achievement of the goals for imports and exports will in the end increase pressure on the state's fiscal resources and will neutralize operational restraints on foreign trade enterprises even as it impedes the achievement of the intended results of devaluation.

IV. Thoughts and Strategic Suggestions for Improving Foreign Trade in the Wake of the Devaluation

Theoretical analysis and an evaluation of the current situation have revealed that it is very difficult for a currency devaluation to achieve the intended economic results. If we do not work to improve the foreign trade system itself, the favorable conditions afforded by currency devaluations will be almost entirely wasted and there will even be unhealthy consequences as we get trapped in a cycle of devaluations. For this reason we should consider the following strategic measures within the context of a guiding philosophy of coordinating and cultivating China's foreign trade capability over the short and long terms.

1. In the near term we should, in coordination with currency devaluations, eliminate barriers to the achievement of the intended results of devaluation, and we should eliminate structure- and reform-related barriers in the intermediate links between the devaluation and its intended results by readjusting structure- and policy-related factors. 1) As we explore ways to reform the foreign trade system, we should deal in a timely manner with the question of the distribution of foreign trade between export marketing and production enterprises. We must assure that, on the precondition that the burden on fiscal resources is not increased and domestic prices are not affected, export marketing and production enterprises share equitably in profits and that their

enthusiasm is maintained. Procurement prices paid by export marketing enterprises cannot increase too rapidly, and part of the profits that result from increased procurement prices should be allocated to production enterprises, and, on the precondition that the losses of export enterprises are converted into profits (and profits are increased), we should either use the funds originally spent on fiscal subsidies to support production enterprises, or use tax rebates or low interest bank loans to give preferential treatment to these enterprises. 2) Given the difficulty of changing China's rigid import demand, we should begin by targeting import products for which demand is highly elastic as we impose import quotas or rigorous planned controls and tariff policies. For production-oriented goods for which import reliance is high, in order to prevent the cost inflation which results from rising import and transfer prices, we should (after giving due consideration to fiscal subsidies) reduce as much as possible the number of intermediate supply and marketing links in order to lower the costs associated with these extra transactions. 3) We should make a transition from the current export procurement system to a participatory system, and from there to the agent system. Under the current export procurement system, trading companies procure products from domestic production enterprises at uniform domestic prices and then sell these products abroad. When procurement prices and export prices fall seriously out of balance, benefits are not transferred well. Production enterprises are cut off from the international market, find themselves incapable of seeking out ways to participate in the international division of labor, and have poor access to information. Under the agent system, export marketing enterprises act as agents for manufacturing firms and market export commodities on their behalf; the risks and benefits are shared. International market information is disseminated more rapidly and production is adjusted in a timely manner. Under the current system, we can make a transition to the agent system by allowing production enterprises to participate in the policymaking activities of export marketing enterprises.

2. From a long-range perspective, we should seek to achieve a strategic development of foreign trade. As we carry out the state industrial policy, we must take advantage of opportunities to participate in the international division of labor and cultivate China's outwardly oriented economy and industry so that in the end we can establish a secure foothold on the international market.

1) We should (in a conscious and planned manner) carry out a strategy of export guidance, developing export industries which produce highly processed goods, increasing the proportion of trade accounted for by electrical machinery, and cultivating high-tech industries which show promise (by giving them tax breaks, for example). 2) We should treat imports on a case-by-case basis and gradually reduce our reliance upon imports. Our main objective at first should be to carry out import substitution in order to change the current import structure, which is oriented toward satisfying short-term domestic consumption demand. We should expand the

proportion of imports accounted for by new technologies, applied technologies, and key equipment which have important significance for the promotion of national economic development. 3) We should build upon our reform of the foreign trade system and our preliminary restructuring of imports and exports by carrying out marketing tactics on the international market. We should use quality and reputation to expand our markets.

Sichuan Reform Committee Discusses Economic Reform

91CE0292A Chengdu SICHUAN RIBAO in Chinese
2 Jan 91 p 1

[Article by Xiong Duanyan (3574 4551 1750) and Mei Songwu (2734 2646 2976): "Increasing the Measure of Reform Is Something Which Must Be Done Smoothly and Rationally; an Interview With Members of the Sichuan Reform Committee"]

[Text] As the new year was approaching, reporters visited with some responsible comrades from the Sichuan Reform Committee: Liu Guangbing [0491 0342 3521], Tang Gongzhao [0781 0361 2507] and Guo Enliang [6753 1869 5328]. We asked them to talk a bit about Sichuan's 1991 work in reforming the urban economic system.

Reporter: The central authorities have made "push forward unswervingly with reform and opening to the outside" the leading thought of the ten-year program and the Eighth Five-Year Plan. Sichuan is a large, inland province with an undeveloped commodity economy; is deeper reform even more pressing here?

Liu Guangbing: Naturally it is. Recently, Governor Zhang Haoruo [1728 4110 5387] spoke on this topic before the Provincial Planning Commission, and said something worth reflecting upon: Sichuan initiated its reforms comparatively early; why then is it now behind the coastal areas? My personal view is that in addition to various objective reasons, I fear it is due chiefly to the thinking behind the reforms not being unified with the people. They do what they say they will do, and the thought is the same at all levels that we are good at starting out from our own province's realities in settling on reform measures. For a time recently, I accompanied leading comrades from the Provincial Committee on an inspection trip to some coastal areas in Guangdong, and discovered that our basic shortcoming was in this. Naturally, the Provincial Committee and provincial government have done a great deal of work, and the gap between ourselves and others is growing smaller.

Reporter: When we have been out gathering the news at grass roots levels, we have often heard various comments on reform. How exactly should we regard Sichuan's reforms of the last 12 years?

Liu Guangbing: What I know is that Sichuan's reforms started out from the rural areas, and have been relatively

successful. Everyone pretty much agrees on this. But has this also been true for reform of the urban economic system? I believe that urban reforms have been relatively successful in many ways, with some great accomplishments. Naturally, there are still some aspects in which it needs to be improved and furthered, particularly allocation, where we still have not really smashed the "big iron pot." The central authorities this time have urged that we be unswerving in pushing reforms, and when we speak of Sichuan in this regard, it becomes an absolute must.

Guo Enliang: If economic construction is central, then it would be absolutely unacceptable to not have reforms. Moreover, there is a gap in some of our comrades' recognition of this.

Liu Guangbing: During the previous phase, in order to stress finding some resolution to the pressing problems of our economic life, such as economic overheating, inflation, confusion in the economic order, etc., it was vital to the work dynamics to implement measures which emphasized improvement and rectification. However, there have already been some preliminary results from improvement and rectification, and these have created a better environment and conditions through deeper reform. At present, the deeply layered contradictions in economic life cannot be overcome by administrative measures alone; the only resolution to these is through deeper reforms and wider opening to the outside. We have to seize this opportune time, move forward in liberating our thinking, and unswervingly promote reform and opening as the central authorities have demanded.

Reporter: What are the provincial reform committee's plans for next year concerning reform of the urban economic system?

Liu Guangbing: Based on the leading thought of the Provincial Committee and provincial government, we have already made an initial proposal, and this is being discussed. In general, in the coming year we will give greater weight to reform, with a focus on continuing reform in enterprises which are functioning well, particularly large- and medium-sized enterprises. Initially, the deeper reforms will be in the enterprises' management systems, further perfecting the contract management responsibility system and staying with the plant manager responsibility system. The next steps will be improvement of the enterprise labor system and the allocation system, actively but safely developing test sites for a stock system and profits tax distribution. We will also set up a system of property rights, set right the state-enterprise relationship, vigorously promote the enterprises' simultaneous transfer of property rights, and further the rational circulation of capital reserves and improvement of their composition. It looks as if these reforms of ours are totally in keeping with the spirit of the Seventh National People's Congress.

Reporter: In the first year of the Eighth Five-year Plan, will there be new innovations in the province?

Liu Guangbing: Some are still being looked into and tested. However, you can give your readers one bit of news: Sichuan has decided to go forward next year in Guanghan with a comprehensive system of reform test sites. We will take there for testing things that we have talked about reforming for 12 years without doing it, and projects which are the most difficult to reform.

The current reforms are dealing with things that are much more difficult than in the past. These are concerned chiefly with enterprises setting prices and yielding up profits, and right now the enterprises' turnover operations system. We won't be yielding up any profits at the Guanghan test site, but will be bringing pressure to bear on the enterprises, spurring changes in their turnover systems.

Tang Gongzhao: The enterprise turnover system is important. For example, many small enterprises have constantly been seeking technological progress, constantly turning out new products, while some large enterprises haven't shown any interest at all in new technology. It isn't that they don't understand the importance of new technology, it's just that they lack a mechanism for bringing forth new ideas. We intend to thoroughly resolve this problem through reform. I can say that one way enterprises will be evaluated on how successful they have been in fulfilling their goals will be whether they possess a mechanism for constantly pursuing technological progress.

Liu Guangbing: Naturally, we also want to create for enterprises the societal background and conditions for reform, and for the most part this will be to implement two complementary reforms: one will be to progressively set up a system of societal safeguards, with the focal points being systems of unemployment insurance and old age insurance; the other will be to cultivate markets, from top to bottom set up and perfect markets which will produce capital, property rights markets, financial markets, etc.

Guo Enliang: Adopting these reform measures will really advance the rational circulation essential to production, making enterprises' production and operation even more effective.

Tang Gongzhao: I've thought of an additional point. The reforms we were just speaking of will require more unified thought, and this will require more thorough study of the basic theory of reform. For example, promoting the theory of a socialist, planned commodity economy and the theory of the primary phase of socialism, are both something that the party is utilizing and developing in Marxism, and are the fundamental theories guiding our reform and opening to the outside. There are also proofs which in truth inspected only one goal and production forces target, etc., and these fundamental theories are absolutely unshakeable. In studying the communique from the Seventh National People's

Congress, in the course of studying the party's basic line, thoroughly examining these theories with total comprehension, will be greatly beneficial to unifying our knowledge and deepening the reforms.

Liu Guangbing: That's enough for today. To sum up, we will act during the period of the Eighth Five-year Plan according to the demands of the Seventh National People's Congress, and increase the weight of reform. This is something that must follow a logical train of thought in order to be done well. We are very optimistic about reform and opening to the outside in Sichuan.

Enterprise Groups, Economic Strategy in Jiangsu

91CE02928 Nanjing XINHUA RIBAO in Chinese
4 Jan 91 p 2

[Article by Zhu Tonghua (2612 6639 5478), Wang Xuefei (3769 7185 7236) and Zheng Yuanming (6774 0337 2494) of the Jiangsu Provincial CPC's Research Office: "Strategies For Developing Enterprise Groups and the Jiangsu Economy, a Survey of Changzhou's 'Golden Lion' Enterprise Group"]

[Text] During our recent trip to Changzhou we visited three chemical industry enterprise groups: Jinshi, Changchai and Dongnan. We also held discussions with relevant municipal departments, unifying economic development strategies, and concentrated on making a special survey of the Jinshi Bicycle Enterprise Group.

The Jinshi Bicycle Group is one of the more standard and successful large-scale enterprise groups in Changzhou. Its predecessor was the Changzhou Bicycle Plant, established during the 1970's. At the beginning of 1987, it was formally established as a stock system enterprise group, encompassing 27 enterprises as well as industrial, foreign trade, commercial, financial, research and development, and technical education units. The closely layered group has 12 plants, one research and development institute, a staff of 8,300, and property worth an estimated original value of 100 million yuan. In 1989 it produced 2.03 million bicycles, with an output value of 520 million yuan, placing it among China's 500 large-scale enterprises, according to the State Statistical Bureau. The course traveled by "Gold Lion" epitomizes the development of China's enterprise groups. Starting with an analysis of "Gold Lion," we will attempt to evaluate the unique significance that the deeply layered development of enterprise groups has for China's economic development strategy. We will look at how the development of Jiangsu's enterprise groups is moving in the mechanism which links a planned economy and market adjustment, as well as related topics.

The Five Major Functions of Enterprise Groups During a Time of Economic Transformation

Since improvement and rectification, some weaknesses which were dominant in the Jiangsu economy to one degree or another, gradually appeared as deep-seated contradictions. The Jiangsu economy is at an extremely

important juncture. At this point, where the Seventh Five-Year Plan is ending and the Eighth Five-Year Plan beginning, it will be a new breakthrough to turn the Jiangsu economy onto a course centered on benefits in order to accomplish the two pivotal topics of adjusting the enterprise structure and accelerating opening to the outside. This will be another powerful force for development of the Jiangsu economy, and is a topic attracting the attention of everyone. In the past, enterprise groups were often judged by their functions of raising the degree of specialized coordination and developing the scope of the economy; now when people turn back and look seriously at the groups again, the groups are seen to be far more significant than this. In the mobile mechanism linking the planned economy with market adjustment, the healthy development of enterprise groups will in actuality seek a new model for organically linking the Plan with the market. Looking at understanding of Changzhou's several enterprise groups and the conditions surrounding them, the development of enterprise groups might also open up a train of thought from which we can learn how to resolve the deep-seated contradictions in Jiangsu's economy. It is specifically expressed in:

Making breakthroughs in adjustment of the industrial structure. The importance and urgency of adjusting the industrial structure is already widely recognized, but actually is difficult to put into operation, people also find it puzzling. In the past, Jiangsu did not operate enterprises, but rather delegated powers to them, and this was one of the province's strong points, an action resulting from reform which should be adhered to for the long haul. However, it by no means implies that provincial level ability to control the industrial economy will weaken, it is just that the form and methods of regulation should be in harmony with the needs of reforms and changes in the development of the forces of production. Therefore, we can assume that through the important function of provincial-level control of large-scale enterprise groups, and from this make a start on implementing the resolution and disposition of governmental regulation of the industrial structure, we will not lose the chance to strengthen the government's ability to control, nor will this intervene directly in enterprise thinking. If, during the Eighth Five-Year Plan, we combine adjustment of the industrial structure with industrial policy, and establish and foster the several dozen or so key enterprise groups which act as lead troops, then through these groups we may effectively restrict half or even more of the province's value of industrial output. In that way, the capability of controlling the economy at the provincial level will increase greatly. If this comes about, its vital significance cannot be overstated.

Raise the degree to which the industrial structure begins to take the lead. A chief characteristic of small enterprises in Jiangsu is that the problem of "small and complete, small and dispersed, small and low," continues to exist in varying degrees in different industries. These "three smalls" has created dispersion and waste of manpower, resources and materials, formed low level

duplication and enterprises which are struggling weakly to compete. When in the macroeconomic environment enterprises show weakness in their ability to weather storms, they fall behind easily, while simultaneously making government control of the economy more difficult. The "Gold Lion" group molded its 173 member units into a single entity, this synthesized those functions which individual enterprises found difficult to do on their own, e.g., research, production, management services, etc., which raised the coverage rate and competitiveness of their products in the marketplace. In 1989 Gold Lion's output was 2.030 million bicycles, 1.7 times what it was prior to the group's founding in 1986. In a situation where nationally the bicycle industry is showing increasing losses, and the market is slumping, "Gold Lion" still created 70 million yuan in tax revenues. This would have been unthinkable before the establishment of the group.

Begin acting as the catalyst in further molding urban and rural industry into an organic whole. Industry in towns and villages is already "half of the country," where Jiangsu's industry is concerned. Rural industry is an intrinsic part of a socialist, planned, commodity economy. It should have a "branches and leaves" relationship with state-run large- and medium-sized enterprises, the two combining to form a complete socialist industrial system, they should not be regarded as unrelated to and even separate from each other. The critical point is how to choose the appropriate model which will, in the long-term, be the path for assimilating dissassociated rural industries outside of the plan, and channeling them, in part, into the coordinated development of urban industries. Developing enterprise groups will open a way to this. The "Gold Lion" group includes many rural enterprises, and some of these have been partially integrated into the group as members. Some enterprises coordinate with "Gold Lion," on a regular basis, and the latter in turn then links its profits with those of the enterprises. By these means, the rural enterprises come into the sphere of, or become a direct part of, the state plan, this moves actual total control by the state and synthesized balance of rural enterprises from the realm of possibility to actuality.

Become the backbone for maximizing development of an economy oriented toward the outside. The world economy has entered the stage of group-type competition. While it is truly indispensable to have diversified commodities entering the international markets in small batches, in the end these cannot form a model for excellence. For enterprise groups to constitute the main part of our competition in international markets, they will require assistance to becoming the mainstay troops in opening to the outside, so that they gradually get to the point of maintaining enduring excellence in the international markets. Maximizing the synthesized excellence of enterprise groups will also be the spur to transforming some medium and small-scale rural enterprises from a domestic orientation to an outside one, and ultimately create a totally new atmosphere for our outside-oriented

economy. This atmosphere is doubtless something Jiangsu will have a special need for both now and in the future.

Further come into full play as the tie for crossing barriers to relationships. The single plan economic model has created barriers; regardless of whether the enterprises return to line management, they are still managed apart, which creates contradictions to one degree or another, restricts the development of production, and eventually the pros and cons of each become blurred. The enterprise group's open model and specialized, mobile system break through the barriers and self-centered closed cliques, getting rid of its disadvantages and its advantages. Enterprises will be united by cutting across regions, cutting across departments, and cutting across systems of ownership, and production will be organized according to the laws of a socialist, planned, commodity economy. Perhaps it will form a better or even the best production structure and regional arrangement, and thereby develop more rapidly society's forces of production.

Development of Jiangsu Enterprise Groups Requires How Much Thinking?

In the next several years, steadily perfecting the enterprise groups we have now, and in addition form enterprise groups with Chinese characteristics, complementary to the realities of Jiangsu's economy, is necessary for enlivening large- and medium-sized enterprises and vigorously developing Jiangsu's economy. The creation of an external environment suitable to the growth of enterprise groups is a matter of the utmost importance. To this end, should we not be expending our efforts in the following several areas:

Take the plan as a whole, based in the whole province, and avoid in the development of groups the separation and propagation of some locations apart from the fold. Organization of large-scale enterprise groups should start out from the entire province's economic development strategy, from studying what is beneficial to the synthesized superiority of the province and its cities. Within an industry, the questions of how many enterprise groups to organize, how to organize them, what kind of groups, etc., should be demonstrated programmatically, arranged in accordance with the plan as a whole, and especially should be linked with adjustment of the industrial structure and the Eighth Five-year Plan. Leading bodies at the provincial level should extend concrete assistance to those enterprise groups which have key roles in adjustment of the economic structure and opening to the outside, giving them policies. This will progressively foster them to become enterprise groups which are at once based in Jiangsu, faced toward the whole nation, and ascending to the international marketplace, while being at the mainstream level domestically. The organization of enterprise groups at the xian level should be coordinated with the provincial level economy, it should have in mind common development in competition, and not create internal waste or economic

relationships which cut off people from places or one place from another. Otherwise, it could deviate from the original intention of developing enterprise groups. Improve the external environment for development of enterprise groups. In future development, it is extremely important that enterprise groups have a favorable environment for development. First, adopt firm and careful measures for enterprise group remodeling. Separate out those enterprises which are unworthy of the name, have serious internal waste, and are refurbished companies administratively, and in differing ways implement their cancellation and removal. Those enterprises whose products are notable for their superiority or are important to the national economy, should be formed into enterprise groups, with one or several large- and medium-sized enterprises as the main body. These would be enterprise groups in which a number of the enterprises have integrally linked the economy with technology, along with research and financial units, and only then will there be the encouragement and concrete assistance that they should receive. We do not endorse plunging headlong into action. Second, improve the enterprise groups' management system. The current demonstration and proof, examination and approval, and day-to-day management of enterprise groups are the separate responsibilities of different departments; each link is out of line with the others, creating considerable work difficulties. There should be clarification as to who leads in these responsibilities. Regardless of whether an enterprise group is listed under a city or the province, its significance should without exception be expressed in terms of its economic development, and not in its administrative level; enterprise groups should conscientiously submit and support the management of the chief department in their area. Third, promote enterprise groups at deeper administrative levels. Looked at from the situation of "Gold Lion," the group was gradually formed into a center for investment, profits and expenditures. The group's own department acts as an investment center, setting up financial firms which routinely engage in banking activities, management of enterprises' internal funds and funding accommodation. It facilitates the groups' internal capital relationships, and strengthens the groups' need to condense powers. When the necessities are temporarily lacking, interim measures can be employed; one possibility is for the banks to try setting up offices in the enterprise groups. Enterprise groups should be encouraged to adapt to the requirements of domestic and foreign markets, with one firm as the principal, and multilateral operations.

The development of enterprise groups requires the renewed consciousness of leading organizations and every department. The enterprise group is a new production force for society and a new form of enterprise organizational structure. Organizing enterprise groups also serves to regulate the old powers of some, and therefore the management and promotion of groups brings with it that new awareness especially needed from leading departments. Where reform of the system of organization still awaits implementation, the legal status

of enterprise groups is still unclear. When there is no precedent to follow, no ready-made policy to employ, positive steps are being taken to create the conditions for resolving the problems related above, with the overall situation in mind. But there are also some local interests which are firmly entrenched yet going about their work perfunctorily. The results of these two dissimilar attitudes are greatly different. The leading groups in Changzhou opted for the former attitude, therefore we have a situation in which enterprise groups have their own characteristics, and the groups are beginning to take shape economically. In the future course of enterprise groups' growing to maturity and continually improving, this kind of overall consciousness and renewed awareness will appear particularly valuable.

FINANCE, BANKING

Macrofinancial Control Problems, Solutions Discussed

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[Article by Dai Guoqiang (2071 0948 1730): "Obstacles and Countermeasures In Implementing Macrofinancial Control Today"]

[Text] Obstacles To Macrofinancial Control

If we consider the inherent flaws and problems of macrofinancial control as part of the obstacles, then macrofinancial control is faced with 10 major obstacles.

(1) *We only have a single goal.*

All along, whenever we talk about macrofinancial control, we seem to be referring only to overall quantitative control, that is, controlling the issuance of currency and the credit scale. In recent years, although it has been suggested that we should pay attention to structural adjustments, in fact the focus of control and the promulgation of concrete policies and measures have remained to be controlling the total money supply first, and we are still basing our assessment of the success and failure of macrofinancial control on the currency issuance and credit scale figures.

To have but this one goal is to ignore the continuity of economic activities and pay attention to short-term stability regardless of the many problems it brings to long-term economic development. Because we have only one goal, the outlook of macrofinancial control tends to be very narrow. Take controlling the money supply for example. For many years, we have focused on the amount of currency issued by the central bank. Little did we know that after the currencies are issued, there are other important bodies besides the central bank that can affect the total money supply. Under China's current system, focusing on the central bank's currency issuance alone cannot possibly control the total money supply.

First, public finance is one important body which can effect changes in the total money supply. Public expenditure, especially, can in many different ways, turn public funds deposited in the central bank into cash in the hands of enterprises and civilians or into deposits in the specialized banks. No doubt, this will increase the total currency circulation. If the government makes an overdraft from the central bank, it will directly increase the total money supply. Under the financial contract system, local governments in fact also have substantial power to issue currency. This is because to a very large extent, they control the bank branches and sub-branches and can force them to increase loans to support the local economies and shift the deficiency in hard loans (such as agricultural and sideline product procurement loans and current fund loans) to the central government, forcing the central bank to increase loan funds or print more money. Under the reserve requirement system, commercial banks can release a large amount of cash through the [deposit] multiplier process as they create increasingly more credit. When enterprises and individuals swamp to the market with cash on hand, it increases the amount of currency in circulation. Thus, if we only control the amount of currency issued by the central bank and neglect to control the other important economic bodies, it will be impossible to achieve the goal of controlling the total money supply.

(2) *The measures have become too simplistic.*

Since there is only one macrofinancial control goal, in practice, the control measures will tend to be simplistic. One of the manifestations of the simplistic approach is, besides controlling the total money supply, we only focus on the banks, especially the central bank, and we overlook everything else. In controlling the total credit volume, we have always used the reversed control method—"the higher level banks set the goals, and the lower level banks implement the measures." Since the lower level banks have their own interests and relationships to balance, and adding that some bank personnel are of poor quality who lend money based on personal ties, at the end, "what should not be kept down are allowed to go ahead and what should be kept down are also allowed to go ahead." As a result, we talk about controlling the credit scale every year, and every year we exceed the limit of the credit scale. Another manifestation is that we have a preference for administrative measures and tend to "cut everything with one stroke of the knife"—use the same measure or method to deal with everything indiscriminately. Today, "the economic measures are not very effective, the legal measures are not very compelling, the ideological work is not going very smoothly, and the disciplinary measures are not very good," and since the future of the leaders at all levels depends on the administrative measures, it has given many people the impression that "only administrative measures are the most effective." But we must realize that administrative measures tend to be more rigid, and even though they may not "cut everything with the same knife," they still "cut."

(3) The monetary policy of the central bank has softened.

Since the establishment of the central bank system in 1983, China's central bank has remained fairly weak. Specifically, its monetary policy has vacillated between being too loose and too tight, which makes it highly susceptible to interferences by economic and political factors and tends to be haphazard. In the conflict between the supply and demand for money, the total demand has always been inelastic and the supply, that is, the monetary policy, has been very elastic, that is, whenever there are economic fluctuations, the monetary policy becomes the target of readjustments.

(4) The specialized banks' macromanagement functions have been weakened.

In restructuring the banking system, specialized banks, as the state's fund management department, have been given macroeconomic management duties as well as the responsibility to control the overall credit fund volume. On the other hand, as a kind of financial enterprise, they have an internal impulse to seek profit. Induced by the idea of "more deposits mean more loans," specialized banks compete with one another to increase the credit loan volume, which weakens their macroeconomic management function and makes them less reliable in carrying out the state's monetary policy. In addition, so far, the central bank has remained a bank that allocates credit; the credit plan it has drawn up has no binding force and serves only as a norm for monitoring the specialized banks but cannot really control the specialized banks' loan scale. As a result, the credit plan has been exceeded again and again. The efficiency of bank loans has also been in steady decline due to poor management, so that the bank loans to GNP ratio has fallen steadily from 1:19 in 1979 to 1:1.31 in 1988. Nationwide, total bank loans are worth more than 1 trillion yuan, but more than 10 percent are problem loans which may never be repaid.

(5) The government's economic conduct is undisciplined.

China is a socialist country. The government has always been the main participant in economic activities, and its economic conduct will directly affect economic development and determine the supply and demand of money. Our assessment of the government's work and accomplishment has always been based on the GVIAO [Gross Value of Industrial and Agricultural Output] and GNP figures, and we have seldom assessed their economic benefits, especially socioeconomic benefits. As a result, those in both higher as well as lower positions have always concentrated on speed: The central government focuses on the total output value, and many of those in local governments focus on how to increase the output value during their terms of office. Meanwhile, the changes in the financial system have induced, and thereby increased, the kind of undisciplined government conduct that stem from their ambition to produce political results; so that in order to quickly increase the output value, local governments have vigorously

increased fixed asset investments, and to different extents, they have all come down with the "investment starvation syndrome" and the "investment contest syndrome," so that the scope of fixed asset investment keeps on expanding. This kind of undisciplined conduct of the local governments not only causes the nation's total credit scale to explode but also exacerbates the unbalanced economic structure.

(6) Enterprises are behaving in a short-sighted manner.

Since enterprises implemented the contract management responsibility system that embodies the "two guarantees and one link," it has given them production incentive but has also encouraged their short-sighted behavior. Because the "two guarantees and one link" are tied to the factory director's tenure system, in order to increase profit during the contract term and increase workers' income and benefits, some enterprise leaders have deliberately reduced the apportionment of cost and charges. Retained profits are not spent on enterprise development as stipulated, but are dispersed and consumed. In order to fulfill their technological transformation duties, some enterprises misappropriate current funds, causing a steady decline in the ratio of enterprise-owned circulating funds. Statistics show that state-run enterprises nationwide owned 22.2 percent of the current funds in 1987, and by 1988, their share has fallen to 18 percent and much lower in some localities. They leave a current fund gap, forcing the banks to make loans.

(7) Income is allocated before it is earned.

In recent years, because we have inappropriately encouraged consumption and have exaggerated the ability of consumption to stimulate production, there has been a tendency for people to spend what they do not have. On the one hand, enterprises' short-sighted behavior and the ambition of some local governments to produce political results have resulted in a sharp increase in the allocation of workers' money income which exceeds by far the increase in national income and the increase in production. Between 1979 and 1987, the banks' wage-related cash payment increased at a rate of 21.45 percent a year. During the same period, society's total output only increased 14.1 percent a year and the national income only increased 11.3 percent a year. Personal income as a percentage of the GNP rose from 38 percent in 1978 to 62 percent in 1988. Besides the above-board, normal money income, some under-the-table and in-kind payments called "black income" or "grey income" have also increased sharply. Allocation no longer has anything to do with production, which necessarily heightens the supply-demand conflict, makes inflation worse, and widens the supply gap, making macrofinancial control even more difficult.

(8) The pricing system has become more complicated.

The restructuring of the pricing system has gone through two stages, readjust and decontrol, and we can say that we have had some results and some improvement in the distorted price situation. But because of inadequate

preparations, the market is underdeveloped, and the market mechanisms are unsound and cannot restrain enterprise behavior effectively, price decontrol, especially the implementation of the dual-track system, has widened the gap between parity and negotiated prices, and consequently the pricing system has become more complicated. In addition, because of poor management, the pricing system has become more chaotic. This complicated and chaotic pricing system very much interferes with efforts to keep prices down and stabilize social order. It not only has triggered a sharp increase in prices but has also caused social disorder. In the citizens' interest, the state is forced to hand out large sums of financial subsidies. To date, it has spent in excess of 100 billion yuan, creating more financial administration problems, triggering another round of financial crisis, and making macrofinancial control even more difficult.

(9) Deficits have become routine.

Since 1979, except for a small surplus in 1985, we have had deficits every year. The devolution of financial power and yielding of profit have reduced the government's income, especially the central governments' income, substantially. Revenue as a percentage of the national income has dropped from 40 percent in 1979 to 25.2 percent in 1987, and the central government's revenue as a percentage of the total revenue has fallen to below 50 percent. At the same time, the central government's expenditures have been increasing every year. Between 1979 and 1989, net government deficits have topped more than 75 billion yuan. We have had budget deficits every year, and the government often makes bank overdrafts, forcing the banks to print more money. This kind of monetization of the deficits is a direct cause of inflation.

Year after year, the banks' credit funds have exceeded what the economy can bear. Currently, the nation's total credit is in excess of 1 trillion yuan, with a credit deficit of 310 billion yuan. Currency issuance routinely exceeds the planned amount. Between 1979 and 1989, a total of 213.2 billion yuan have been issued. This amount is more than 10 times the 21.2 billion yuan issued nationwide between 1949 and 1978. What is most worrisome is, if we deduct what is necessitated by economic growth, more than one-half of the new issuance can be considered over-issuance. Of the more than 100 billion in excess issuance, if we deduct what is needed to remedy the deficits, 20-30 billion yuan are excess issuance beyond what the economy can bear.

Despite the limited national strength, we inappropriately advocated high consumption at one time and spent our limited foreign exchange reserve on importing a large amount of consumer goods. For many different reasons, our ability to export goods to earn foreign exchange has declined, and as a result, we have had foreign trade deficits several years in a row since 1984.

Between 1980 and 1989, the citizen's money income grew at an average rate of 17.2 percent a year, exceeding

by far the nation's economic growth rate, and this further widened the gap between society's purchasing power and its supply of commodities and services. By the end of 1989, the nation had a currency surplus of more than 700 billion yuan, including 513.3 billion in the form of civilian savings and more than 200 billion in the form of cash on hand. Even if we set aside 40 percent of the total savings for nonconsumer good purchases and 20 billion yuan from the amount of cash on hand as the self-employed workers' production and circulation fund, we still have more than 500 billion yuan's worth of purchasing power. Considering how unbalanced the product-mix is in the market, this balance of more than 500 billion yuan's worth of purchasing power in fact represents a deficit in the supply of goods and materials. The current deficit situation puts China's macrofinancial control in a real dilemma.

(10) *The information relay mechanism has become too rigid*

The tenth obstacle macrofinancial control has run into is the economic information relay mechanism which has become too rigid. It is inevitable that there will be a time-lag in manipulating the monetary policy. This time-lag can be divided into three parts—the lag in recognizing the problems, the lag in making decisions, and the lag before the measures take effect. The latter two have their inherent regularity, and with practice and better understanding, they are fairly easy to deal with. The crux of the problem is the time-lag in recognizing the problems. This is affected by subjective and objective factors. If there is a problem with the decisionmaker's subjective understanding and methodology, it will prolong the time-lag in recognizing the problems. For example, if, despite clear evidence of serious inflation, the decisionmaker believes that it is something inevitable or even that inflation is beneficial, he of course will do nothing to curb inflation. But the real problem is when the decisionmaker has the correct methodology but he is not getting prompt information about the economic dislocation and thus he may miss the opportunity to do something about the inflation. There are three main reasons why he may be slow in getting the information about economy: One, China does not have sound market mechanisms and does not have a good financial market nor a keen sense of economic information and therefore cannot relay information quickly. Two, the State Statistics Bureau's reporting period is too long. The information it gets is already outdated, and as the reports are sorted out level by level, much time is wasted. The government decisionmakers' source of information is the statistical reports, and the delay means they will not get the signals about the economic disequilibrium in a timely fashion. Three, China's economy is a resource-constrained natural economy. Changes in the monetary domain always lag behind those in the real world, and this also makes it difficult to see immediately how serious the problems really are.

II. Countermeasures To Surmount the Obstacles

The above 10 obstacles fully demonstrate that under today's real conditions, implementing macrofinancial control is a very arduous and complicated undertaking. If we want to realize the central government's goals of "one, stabilize; two, develop" as well as the fixed goals of macrofinancial control, it is this writer's opinion that we must at least work hard in the following five areas:

(1) We must clarify the vague concepts in our understanding.

Among the 10 obstacles, many have to do with our understanding and knowledge about macrofinancial control. All along, we have had a vague idea that whenever we talked about finance, we would immediately think of the banks and equate banking with finance, and whenever we talked about financial control, we would understand it to mean the central bank's and the specialized banks' macroeconomic control. In fact, these are misconceptions. The term "finance" in English means, one, financial administration, banking, the study of finance; two, a source of funds or capital; three, to supply funds or raise funds for someone or something. "Financing" is defined as the management of money matters. Thus, finance in its narrow meaning refers to the gathering and distribution of funds, but in its broad sense, it also refers to the supply and the management of funds. As financial intermediaries, banks play an important part in gathering and distributing funds in society, and banking naturally falls under the meaning of finance. But banking is not what finance is all about nor are banks the only types of financial institutions. Public finance plays an important role in gathering and distributing funds, as well as in fund supply and fund management. Enterprise financial matters, in fact, also involve fund gathering and distribution, and enterprises play an important role in the supply and management of funds. These should all fall under the broad meaning of finance.

(2) We should develop production, increase effective supply, and eliminate the deficits.

Deficits, especially budget deficit, have long been one of the main causes of inflation. To overcome the inflationary pressure and achieve the fixed goals of macrofinancial control, we must eliminate the deficits, and to do that, the basic means is to develop production and increase effective supply. Similarly, to eliminate credit deficits, trade deficits, and deficits in the supply of goods and materials, we must develop production and increase effective supply.

(3) We must strengthen the constraining mechanism in the central bank's monetary policy and the specialized banks' management functions.

First, we must make the central bank more independent in order to reduce or eliminate unnecessary administrative interferences in, and maintain the stability of, the monetary policy.

China's specialized banks are state banks and have substantial macromanagement duties. Meanwhile, we must urge the central bank to provide stronger leadership and supervise the specialized banks more closely, while promulgating concrete measures stressing the seriousness of the central bank's various planned quotas.

(4) We need to further financial reform, formulate an industrial policy, discipline the government's economic conduct, and curb enterprises' short-term behavior.

As an important component of financial control in the broad sense, financial administration has grave macrofinancial control responsibilities. Furthermore, the undisciplined government conduct and enterprises' short-sighted behavior are directly or indirectly to blame for diminishing the effects of macrofinancial control. Thus, financial administration itself needs to be readjusted and reformed.

There are two causes to the local government's undisciplined economic conduct: One, the internal cause, that is, local government's ambition to produce political results; two, external cause, that is, the existing financial system which acts as a stimulant. "Financial contract" as an external cause triggers the internal cause inherent in the localities, leading some local government to ignore what the country as a whole needs and expand the scope of local capital construction, interfering with macrofinancial control. To eliminate such interference and discipline the local governments' economic conduct, we must deepen the financial reform.

The financial condition of enterprises at the grassroots level is what determines whether the macrofinancial control goals can be achieved at the end. To curb enterprises' short-sighted behavior, besides improving the quality of enterprise leaders, we must also deepen the financial reform. At the same time, we should formulate an industrial policy and combine industrial readjustment with the readjustment of the product-mix. We must restructure the current enterprise financial system, strengthen the binding force over enterprise financial matters, prompt enterprises to utilize and manage their funds properly, and put the current fund management regulations into effect.

(5) We should make use of the law of value and perfect the market mechanisms.

To implement macrofinancial control, it is important to make it timely and act in moderation. How well-developed the market is will directly affect the effectiveness of macrofinancial control. First, we must perfect and amplify the market mechanisms, so that we can relay economic information quickly and so that the decision-making departments can understand and grasp the economic situation in a timely fashion, make prompt decisions and plans, and proceed with timely and appropriate readjustments. Second, by perfecting the market and amplifying the market mechanisms, it will facilitate our giving full play to the regulatory role of the law of value and smooth out the pricing system, and it will facilitate the perfection and expansion of the two-way flow of commodities and currency.

Progress of Shanghai Stock Exchange, Pudong Development

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[ECONOMIC REPORTER] in Chinese
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[Article by Ch'in Yu (4440 1342): "Expansion of Stock Markets and Development of Pudong—Report on the Circumstances Surrounding the Opening of the Shanghai Stock Exchange"]

[Text] The Birth of the Shanghai Stock Exchange

Ever since Luo Shilin [5012 1102 2651], vice president of the Shanghai branch of the People's Bank of China (PBOC), officially announced to the media in July 1990 that Mainland China's first stock exchange—the Shanghai Stock Exchange—would be set up before the end of 1990, the media both in China and abroad have been following with interest the following step-by-step progress of this major indication of China's further reform and opening up to the outside world:

- The great upsurge in cashing and investing in mature 1985 national treasury bonds on Shanghai's stock markets in July 1990.
- The great wave of southern investors from places, such as Shenzhen, pouring money from all areas into Shanghai's stock markets in August 1990.
- The surprising sight of even cripples carrying infants lining up at Shanghai's distribution markets in September 1990 to buy national treasury bonds, which had long been available only through administrative apportionment.
- Whereupon, while Shanghai's stock markets heated up again, black market trading went almost out of control, and many of the Chinese and foreign participants in the international banking deliberations that were underway at the time in Shanghai were concerned that this might slow the birth of the Shanghai Stock Exchange, just as the lack of control had slowed the birth of the Shenzhen Stock Exchange, for which preparations had been underway for over a year. Shanghai's government leaders neither panicked nor tried to shirk their responsibility due to the risk, but rather strengthened their control over stock markets, which gradually pushed stock prices back down.

Everything proceeded methodically according to plan, with negotiable securities trading laws and regulations being drafted, traders being trained, all large negotiable securities companies coming to Hong Kong for on-the-spot investigations, and the Shanghai Stock Exchange finally being born on 26 November 1990 and opening for business on schedule on 19 December 1990.

Shanghai People Are Writing Their Own History

The first sentence said during an interview by Wei Wenyuan [1414 2429 3220], who was appointed the first

general director of the Shanghai Stock Exchange by its board of directors, was "We are making history here." General Director Wei is just a little over 30 years of age, did graduate work at the Institute of Finance and Economics in the 1980's, was assigned to the Central Ministry of Finance after graduation, and was transferred from Beijing to Shanghai to help set up the Shanghai Stock Exchange. He said that from the time he first accepted the job of general director, he had focused all of his efforts on ensuring that the stock exchange open for business on schedule by 19 December 1990. When a senior official of the Shanghai branch of the PBOC, who had worked long ago for the old Shanghai Stock Exchange, spoke to Mr. Wei about the vicissitudes of the Shanghai Stock Exchange Tower and his experiences when negotiable securities trading was outlawed over 40 years ago, Wei Wenyuan expressed the following strong sense of mission: History has developed to the stage where all countries throughout the world regard the degree of stock market development as a criterion by which to judge the investment scope and might of a national economy, and as an indication of a country's future economic maturity. The establishment of the Shanghai stock exchange shows that China's economic reforms have deepened from a commodity market system to a money market system, and from the wealth that has already evolved out of markets to the riches that markets are going to create.

Shanghai Has Resurfaced as Mainland China's Negotiable Securities Center

Shanghai clearly began to draw up stock market development plans in 1986, when the following two highly significant events occurred in Mainland China:

- The Shenyang branch of the PBOC's approval of a pilot project by the Shenyang Trust and Investment Corporation in various bond transfers, mortgages, and negotiable securities appraisals on 5 August 1986, was the beginning of bond trading in Mainland China.
- The official approval of stock trading by the Shanghai Trust and Investment Corporation's Jing'an Negotiable Securities Department on 26 September 1986, even though only 5 million yuan of stocks in two collective enterprises were put on the market at the time, was the beginning of stock trading in Mainland China.

When John Phelan, chairman of the New York Stock Exchange, had crossed the Pacific Ocean not long before this to present Deng Xiaoping at Zhongnanhai with a New York Stock Exchange emblem, Ms. Chen Muhua [7115 1970 5478], then president of the PBOC [People's Bank of China], in turn presented Phelan with one of Mainland China's first stocks, in the Shanghai Feiyue Acoustics Company, whereupon Phelan asked to visit

Shanghai's stock market. However, the so-called "Shanghai Stock Market" of that time was only one room of 11-12 sq m in the Jing'an negotiable securities department, where stocks were not yet actually on sale. A group photo of Phelan and Jing'an's director, Huang Guixian [7806 6311 7639], which was taken in this small room to mark the occasion, became famous as a picture of the chairman of the biggest stock exchange together with the director of the smallest stock exchange, and now hangs in the New York Stock Exchange.

There was much discussion and study of Shanghai stocks in the process of issuing and putting them on the market, with Jiang Zemin, then mayor of Shanghai, personally holding discussions about them. The sources of Shanghai stocks that were later issued and put on the market expanded from collective to state-owned enterprises and from industrial to commercial, banking, and real estate enterprises. Since Shanghai became one of seven Mainland Chinese cities in which national treasury bond trading was first opened up in April 1988, its volume of negotiable securities issued and traded has increased sharply. Shanghai has so far issued 10 billion yuan (RMB and similarly hereinafter) worth of negotiable securities, and its negotiable securities trade turnover has topped 3 billion yuan. A detailed analysis shows that Shanghai's negotiable securities trade turnover has increased amazingly fast over the last four years or so. It was only 7 million yuan in 1986, but increased to 36 million yuan in 1987, 306 million yuan in 1988, 803 million yuan, or 34.9 percent of that throughout Mainland China; in 1989, and 1.9 billion yuan, or 50 percent of that throughout China, in the first three quarters of 1990. Shanghai has undoubtedly become China's negotiable securities center, and its over 60 negotiable securities trading counters now sell seven kinds of stocks, almost 20 kinds of enterprise and bank bonds, and nearly 10 kinds of national treasury bonds. Since the Shanghai Stock Exchange officially opened for business, traders have put local negotiable securities from places, such as Beijing, Shenyang, Zhejiang, Anhui, Jiangxi, Shandong, Shenzhen, and Hainan, on Shanghai's market.

The Development of Pudong Is Providing the Best Historical Turning Point for the Emergence of the Shanghai Stock Exchange

Shanghai has rapidly become Mainland China's negotiable securities center in just three or four years. A sampling of Shanghai residents, most of whom basically knew nothing about stocks, bonds, or exchanges just three or four years ago, shows that up to a million have invested in negotiable securities and, since the beginning of the 1990's in particular, negotiable securities books, periodicals, and training classes have become one of Shanghai's hottest cultural phenomena. It must be acknowledged that this is related to Shanghai's historical and cultural origins. After visiting stock markets in several large Mainland China cities, a commercial counsellor attached to the Japanese Embassy in Washington D.C., made the following comments: Beijing is China's political center. Beijingers are concerned most about

politics. National treasury bond trading in Beijing had begun briskly early in 1991 and, even though Beijing's Tianqiao Negotiable Securities Corporation Ltd. along with Shanghai's "Feiyue Acoustics," was one of Mainland China's first agencies to issue stocks, it has not yet put them on the market. Guangzhou is China's commercial center, and many Guangzhou residents are very involved in business. But Shanghai has always been China's financial center, with China's first stock exchange—the British-run "Shanghai Public Shareholding Agency"—having been established in Shanghai 100 years ago (in 1891). China's first Chinese negotiable securities business—the Shanghai Chinese Businessmen's Negotiable Securities Exchange—having come into being in Shanghai 70 years ago (in 1920), and Shanghai having long been the basis of a culture that relies on money to make money.

The rapid growth of the negotiable securities business in Shanghai is also due to the open competition and coordination forces among Shanghai's large negotiable securities companies, which are rooted in its modern commodity economy. Shanghai was China's first city to propose breaking through administrative division limits to allow national treasury bonds to circulate throughout China, has always led and influenced the national treasury and other bond business, and is now developing into China's national price quotation center.

Moreover, the decision by the CPC's highest policy-makers to develop and open up Pudong, is undoubtedly providing the best historical turning point for the large-scale development of Shanghai's negotiable securities business and the rapid emergence of the Shanghai Stock Exchange. Pudong's development is China's most significant action since it began to reform and open up to the outside world. If the major advantage of the establishment in the 1980's of the four SEZ's (Special Economic Zones), such as Shenzhen, was the utilization and development of commercial market forces, then the development and opening up of Pudong in the 1990's will depend on mastering finance, the key medium of the modern international economy. The development of the new 350-sq-km Pudong zone will require a huge amount of money, a considerable amount of which must be raised through the stock market. It is precisely in this regard that the development of Shanghai's stock markets and the establishment of the Shanghai Stock Exchange are indispensable components per se in establishing a good soft investment climate for the development of Pudong.

Industrial, Commercial Tax Revenues Grow in 1990

OW1701183491 Beijing XINHUA Domestic Service in Chinese 1353 GMT 16 Jan 91

[Excerpts] Beijing, 16 Jan (XINHUA)—China's income from tax revenues continued to increase steadily in 1990. According to preliminary statistics from the State Administration of Taxation, industrial and commercial

tax payments received last year topped 196.4 billion yuan, an increase of 8.5 billion yuan over 1989, reflecting a growth rate of 4.5 percent, and basically in keeping with the economic growth rate of the same period.

Furthermore, last year, tax authorities and organs collected a total of 80.8 billion yuan in income tax on state-owned enterprises and key construction funds under the Ministries of Energy Resources and Communications as well as budgetary adjustment funds. The various revenue collected for the whole year totalled 277.2 billion yuan, thereby playing a positive role in promoting sustained, stable, and coordinated development of the national economy.

In the course of development last year, our national economy experienced a number of problems, such as a low growth rate, sluggishness in the market, serious overstocking of finished industrial products, a decline in enterprises' economic results, and increases in losses and fund shortages, all of which added to difficulties in tax collection for tax departments and organs. Under such circumstances, various tax organs and the broad masses of tax cadres adopted all kinds of measures for strengthening the management of tax collection and collected tax payments bit by bit through every possible means.

Tax revenues from industrial and commercial taxes in 1990, apart from business taxes, product taxes, and value added taxes, which maintained a certain range of growth, tax revenues in other categories showed relatively larger growth. Among them, revenues from individual taxes amounted to 14.566 billion yuan, up 10 percent over the previous year. [passage omitted]

The responsible person said: The task of tax collection in 1991 will be extremely arduous. To fulfill the state's tax revenues target, tax collection work this year will persistently act according to law in dealing with tax matters, make vigorous efforts to promote production and increase incomes, and strengthen tax collection management.

The responsible person said: Tax departments will continue to bring into play the regulating role of economic leverage in tax collection and actively support the development of energy resources, communications, agriculture, and science and technology, as well as educational undertakings, so as to bring about rational readjustment of industrial structure and production mix as well as improvements in business management. At the same time, we will use tax leverage to restrict indiscriminate construction and reconstruction.

The responsible person emphasized: In carrying out tax collection work in 1991, attention will be paid to improving and rectifying the taxation system as well as to reduction and exemption of taxes. While continuing to grant tax reduction and exemption to cases in real difficulties and in conformity with stipulations and policy, the State Administration of Taxation will sternly deal with cases of tax reduction and exemption which are

unauthorized and against policy, as well as those who resort to trickery to obtain tax reductions and exemptions. The State Administration of Taxation will also take punitive action against those who practice local protectionism.

Foreign Banks To Establish Branches in Shanghai

OW0603165191 Beijing XINHUA in English
1611 GMT 6 Mar 91

[Text] Shanghai, March 6 (XINHUA)—The People's Bank of China on Tuesday officially accepted the applications of six foreign banks to establish branches in Shanghai, China's leading industrial center, a bank official announced here today.

Gong Haocheng, director of Shanghai Branch of the People's Bank of China, said that the six applicant banks include Citibank North America, the Bank of America, the Industrial Bank of Japan Ltd., the Sanwa Bank Ltd., Credit Lyonnais and Banque Indosuez.

Gong said that the six banks have established close relationships with many of China's large enterprise groups.

XINHUA has learned that since the People's Bank of China issued management regulations on foreign funded financial organizations and Sino-foreign financial organizations in Shanghai in September, 1990, over 16 foreign banks have applied to establish branches in Shanghai.

The six banks approved on Tuesday are the first group receiving approval.

Gong said that the establishment of foreign banks is expected to accelerate development of Shanghai, especially the construction and development of the Pudong area.

Securities Trading, Bonds To Fund Capital Construction

HK2003022291 Beijing CHINA DAILY in English
20 Mar 91 p 2

[By staff reporter Zhang Yuan]

[Text] China's key financial arm for capital construction investment "is mapping a five-year plan to raise more funds by issuing financial bonds for State key projects," China Daily learned yesterday.

Meanwhile, it will "actively and steadily develop the securities trading business" in order to meet the growing demand for convenient dealing of those bonds, said Wei Shigui, director of the Fund Raising Department under the People's Construction Bank of China.

Wei said the funds to be raised in the coming five years will be "very large," but declined to provide details.

However, he said, being a major money supplier to State key construction projects, the bank will implement more forms in fund raising, such as raising funds specially for certain key projects and collecting funds in trust for certain areas in the country.

In the past 10 years, he said, the bank has issued all kinds of financial bonds totalling about 40 billion yuan (\$7.69 billion), taking a lion's share in the field of fixed asset investment in China.

So far, the bank has about 300 securities trading offices throughout the country and their whole business volume is about one-tenth of the country's total traded securities worth some 15 billion yuan (\$2.88 billion), he said.

Wei predicted that the securities trading business will develop faster in the coming five years as fundraising has become a more important way of supporting economic development and that more financial bonds will be issued.

To meet the challenge, the bank yesterday officially opened a new securities trading office just opposite the Minzhu Hotel in Beijing.

The office, approved by the People's Bank of China—the country's central bank, started its trial business on December 22 last year. So far, its securities trading volume has reached more than 63 million yuan (\$12.1 million), said its manager Gao Xinguo.

Gao said their business scope will mainly cover: issuing financial and investment bonds; trading all kinds of securities, even including stocks of securities, even including stocks in the future; consultant services in securities investment.

He said they will provide those services not only to State-owned enterprises, institutions, offices and social groups, but also to foreign-funded ventures in China, self-employed businessmen and individuals.

INDUSTRY

Progress on Housing Reform in Heilongjiang Reported

Conference Held on Housing Reform

91P30119A Harbin HEILONGJIANG RIBAO
in Chinese 26 Jan 91 p 1

[Article: "Housing Reform in Heilongjiang Will Make Substantive Progress This Year. Principles Are To Sell Old Public Housing, Develop Commodity Housing, Rationally Adjust Rents on Old Public Housing, and Encourage Staff and Workers To Pool Funds in Cooperative and Individual Construction"]

[Text] This reporter learned the following from the exchange conference on provincial housing system

reform and residential construction work recently convened by the provincial government: Housing system reform and residential construction in Heilongjiang will make substantive progress this year and will conscientiously resolve housing difficulties.

Vice governors Chen Yunlin and Tian Fengshan chaired the conference and delivered speeches on housing system reform and residential construction problems.

It was learned that per capita living area for urban residents in Heilongjiang still ranks the lowest in China. There is still a shortage of 652,000 homes in the cities and towns. 64,000 households have a per capita living area of less than two square meters, and there are still quite a few slums and dangerous housing areas in large- and medium-sized cities.

The conference announced struggle objectives for housing construction in Heilongjiang by the end of the century: The first step is to fundamentally resolve in two or three years the housing problems of those urban households whose per capita living area is less than two square meters. The second step is to increase the per capita living area of urban residents to 8 square meters and ensure that every family has an economic and practical residence.

This year Heilongjiang drafted a preliminary housing reform plan. Opinions on it are being extensively solicited at present, but it will soon be implemented following examination and approval by the provincial CPC Committee and provincial government. Its main points are as follows: Funds gained from selling old public housing through housing reform should be used to build new commodity housing, which should first be sold and then rented—that is, the majority should be sold and the minority rented out so as to create a benign cycle in residential construction funds; rents for old public housing should be rationally adjusted; housing construction bonds should be issued; and experimental units using public reserve funds for housing (voluntary long-term deposits) should be launched.

The conference demanded that all localities make great efforts to encourage staff and workers to pool funds and jointly build housing, and it encouraged organized purchasing of housing by individuals. Every locality should gradually establish a three-level housing construction fund deriving from government, work units, and individuals, in this way establishing a stable source of housing funds. Under the guidance of urban planning we must make it our policy to gradually change from the haphazard construction of homes by individuals to having individuals pool funds and have their work units organize the unified construction of housing.

Local Officials Review Conditions

91P30119B Harbin HEILONGJIANG RIBAO
in Chinese 26 Jan 91 pp 1-5

[Summary] Of the necessities of life—clothing, food, shelter, and transportation—people are now increasingly discussing the problem of shelter.

Provincial Construction Commission Director Yao Bing: The Seventh Plenary Session of the 13th CPC Central Committee ordered that there be "obvious improvement in housing conditions" in the next 10 years. This is a major Central Committee decision that reflects the aim of the party and government to serve the people. In the past 10 years we focused on guaranteeing clothing and food; in the next 10 years our most pressing task is to improve housing conditions. This is the basic requirement for realizing a comfortable standard of living as well as a practical measure that guarantees social stability and reflects the superiority of socialism. At the same time it will serve to adjust the consumption structure and stimulate the market, enabling it to become a means for the entire national economy to emerge quickly from a deep valley.

Harbin Vice Mayor Wang Quan: The Central Committee decision relates to a problem for which the masses have anticipated resolution. The center and provinces have presented us with lofty goals and high demands. Our mayor feels that we have sufficient vigor but also that the pressure is great. Per capita living area for Harbin residents is 5.56 square meters, which is below the national average. We hope that the higher authorities' policies and measures will be further implemented and laws and regulations further supplemented. Leadership must be strengthened. As Heilongjiang's capital city, Harbin should take the lead.

Provincial Structural Reform Commission Deputy Director Wang Entao: If we are going to achieve our 10-year goal of increasing per capita living area to 8 square meters we cannot rely on the housing system passed down from the state. Rather, the only solution is to step up housing system reform. At present Heilongjiang's urban population has the smallest per capita living area in all of China.

Songhua Jiang Administrative Office Construction Commission Director Yuan Shutian: In recent years, Baoding, Ning'an, Hulan, and other cities and counties have made notable progress in housing reform and provide examples for us to seriously study and emulate.

Hegang City Housing Reform Office Director Zhang Shoufang: The housing reform situation is very complex, it is a key policy issue, and it impacts on the personal interests of every individual. The key to overcoming the "obstacles" to housing reform encountered in several places is to renew people's concepts. If we stray from the path of housing reform it will be very difficult to achieve the goal of improving housing conditions.

Qiqihar Vice-Mayor Su Weimu: The Qiqihar city government should proceed from reality, fully mobilize work units' and individuals' enthusiasm for housing construction, and encourage large- and medium-sized enterprises to utilize individual investments and collective funds for housing construction.

Mudanjiang Vice-Mayor Xu Binghua: Last year our city resolved the cases of 400 households with particularly difficult housing problems, we will resolve another 400 this year, and all the rest will be resolved by the end of 1992.

Output of Main Chemical Products in January

HK1802115491 Beijing CEI Database in English
18 Feb 91

[Text] Beijing (CEI)—Following is a list of the output volume of main chemical products in January 1991, released by the China State Statistical Bureau:

Item	Unit	Jan 91	Jan 90
Chemical Fiber	10,000T	15.28	12.65
Sulphuric Acid	10,000T	92.02	79.33
Dense Nitric Acid	10,000T	2.96	2.35
Soda Ash	10,000T	29.72	25.54
Caustic Soda	10,000T	27.95	27.24
Ethylene	10,000T	14.90	13.08
Calcium Chloride	10,000T	16.80	16.44
Pure Benzene	10,000T	6.81	4.58
Synthetic Ammonia	10,000T	166.40	157.73
Fertilizer	10,000T	149.09	135.59
Nitrogen	10,000T	118.49	112.45
Phosphorous	10,000T	30.53	22.94
Potash	10,000T	0.04	0.17
Chemical Pesticide	10,000T	1.89	1.89
Paint	10,000T	6.85	4.77
Dyestuff	10,000T	1.19	0.86
Pharmaceuticals	10,000T	1.61	1.34
Chinese Patent Medicines	10,000T	2.14	1.41
Tyre	10,000	269.65	183.89
Synthetic Rubber	10,000T	3.08	2.51
Film	10,000M	797	1161
Color Film	10,000M	797	1112
Plastics	10,000T	21.31	15.43

Notes: M-meters, T-tons

Gross Industrial Output Value in January

HK1902105691 Beijing CEI Database in English
19 Feb 91

[Text] Beijing (CEI)—Following is a list of China's total industrial output value in January 1991, released by the China State Statistical Bureau.

Item	Jan 91 (100 million yuan)	Increase over Jan 90 (percent)
Total including	1757.8	33.7
Export products	170.0	36.2
Light Ind.	899.4	29.1
Heavy Ind.	858.4	18.5
State	1180.3	18.1
Collective	478.7	30.8
Others	98.8	74.5

(Industrial output value is measured in 1990's constant yuan)

Shanghai's Industrial Output Value Up in February

OW0703114591 Shanghai City Service in Mandarin
2300 GMT 5 Mar 91

[By station reporter (Zhong Tiehua), from the "Morning News" program]

[Text] Shanghai's industrial department and its affiliated organizations enjoyed very good development after it made vigorous efforts to readjust the mix of products, maintained good quality of products, and succeeded in increasing economic returns. The gross industrial output value of Shanghai reached 12,674 million yuan in February, posting a growth rate of 3.2 percent from the same period of last year, and the accumulative gross industrial output value in the first two months of this year exceeded 27,900 million yuan, up 12.8 percent from the same period of last year.

Statistics showed that an overall growth pattern was taking shape in the industrial department and its affiliated organizations in the municipality. The production of various types of economic activities, including the enterprises under ownership by the whole people, the enterprises under collective ownership, and joint ventures, cooperative enterprises, and enterprises solely owned by foreign businessmen, all showed upward trend. The large- and medium-sized key enterprises run by the state posted a growth rate of 12.4 percent. The growth rate enjoyed by the heavy industry sector was evidently faster than that of the light industry sector in the municipality in the first two months of this year. The heavy industry sector posted a growth rate of 6.9 percent in February over that of the same period of last year, while the light industry sector showed a slight decrease in growth rate. The output value churned out by the export industry of the municipality in February reached 1,573

million yuan, accounting for 12.4 percent of the February gross industrial output value of the municipality and showing a slight increase from that of January.

Largest Producer of Consumer Goods

OW2502135391 Beijing XINHUA in English
1302 GMT 25 Feb 91

[Text] Beijing, February 25 (XINHUA)—China has become the largest producer of 11 types of consumer goods, according to sources from the Ministry of Light Industry today.

The latest statistics showed that China's 1990 output of several light industry products were the highest in the world. Among these products were refrigerators (4.754 million), washing machines (6.526 million), electric fans (54.519 million), sewing machines (7.23 million), bicycles (31.41 million), electric cookers (8.21 million), irons, pencils, pens, canned mushrooms and sea salt.

The last five years have seen a steady growth in China's light industry, which has accounted for three fourths of the country's consumer goods, said an official from the industry. Statistics reveal that the total output value of light industry experienced an average annual increase of 9.8 percent during the period, with last year's figure reaching 230 billion yuan.

There has also been improvement in product quality and variety.

Technological Market Develops Steadily

OW0703081891 Beijing XINHUA in English
0737 GMT 7 Mar 91

[Text] Beijing, March 7 (XINHUA)—China's technological market has been developing steadily in recent years.

However, due to the slowdown of industrial production, the total trade volume and value of the technological market in 1990 was less than that of the previous year. Nonetheless, the trade volume did increase in 17 provinces, autonomous regions and municipalities, especially in the economically underdeveloped regions last year, according to the ECONOMIC INFORMATION DAILY.

Statistics reveal that with the exception of Tibet and Guizhou, the technological markets in 28 of the country's other provinces, regions and municipalities secured a total of 206,700 trade contracts, the paper said.

China has a total of 19,700 technological trading offices employing 361,000 people, 204,000 of whom are technicians and scientists, the paper noted.

By the end of last year, 44 technological trade administrations had been set up throughout the country, and 18 provinces and cities had issued regulations concerning tech-markets.

**Export Oriented Technological Exchanges
Planned***HK1203040591 Beijing CHINA DAILY in English
12 Mar 91 p 3*

[By staff reporter]

[Text] The Chinese Government will vigorously push ahead in its scientific exchanges with other countries during the next decade in a bid to increase both its imports and exports of technology, according to a senior official from the State Science and Technology Commission.

During the next decade, the policy of opening to the outside world would continue and emphasis would be placed on the development of export-oriented technological enterprises, especially in high-tech areas, said Li Xu'e, vice-minister of the commission.

To facilitate exchange in science, the State would draft further regulations to simplify the procedures for scientific personnel in high-tech fields to go abroad to attend seminars or exchange research, Li said.

The State Council was also expected to approve 20 new high-technology development zones, Li said, which would be subject to preferential treatment similar to coastal special economic zones.

In recent years Chinese scientific circles have made remarkable progress as a result of multi-channel academic exchanges and cooperation with foreign counterparts.

Statistics from the State Science and Technology Commission reveal that China has signed technological and economic cooperation agreements with 57 foreign governments, while cooperative relations have been established with 108 countries and regions.

And China is participating in more than 30 scientific organizations attached to the United Nations.

Nongovernmental scientific exchange is also on the rise, with Chinese academic institutions now participating in more than 280 international academic organizations, according to the commission statistics.

For example, the Chinese Academy of Sciences (CAS), China's authoritative research body, has signed cooperative agreements with research institutions in 50 countries.

The China Association for Science and Technology has sent representatives to 39 organizations attached to the International Council of Scientific Unions, while the State Foundation for Natural Sciences has established co-operative relations with 12 foreign foundations.

In recent years, more than 40,000 researchers have gone abroad each year to conduct cooperative research or attend training courses.

**He Guangyuan Stresses Upgrading Machinery,
Electronics***OW1403153491 Beijing XINHUA in English
1406 GMT 14 Mar 91*

[Text] Beijing, March 14 (XINHUA)—The main task for China's machinery and electronics sectors during the 1991-95 period is to promote technological progress, optimize the industrial structure, and improve quality and management.

He Guangyuan, minister of the machinery and electronics industry, pointed out that the output value, and number of enterprises and employees in the machine-building and electronics industry each account for one-third of China's total.

The main problems in the industry include the irrational industrial, organizational and product structures, and low levels of technology, skill and capacity to develop new products.

Minister He said that during the Eighth Five-Year Plan (1991-95), the ministry will stress upgrading enterprises making farm, mining and port machinery, and petrochemical and automation equipment.

He said that China will adopt flexible methods to expand international co-operation and import advanced and practical technologies to upgrade China's machine-building and electronics sectors. Out-of-date and low-efficiency machines and products must be eliminated, he stressed.

The ministry will give priority to research and development, especially in the application of computers.

Minister He also said that Chinese enterprises will welcome any form of international cooperation: joint ventures, cooperative production, establishing enterprises with sole foreign capital, compensation trade, processing with supplied materials or on order, and license trade.

SMALL-SCALE ENTERPRISES**Township Enterprises' Efficiency Declines in 1990***91CE0320A Beijing JINGJI CANKAO BAO in Chinese
15 Jan 91 p 2*

[Article by reporter Lu Yongjian (7773 3057 1696) entitled: "Township Enterprises' Efficiency Continues Sliding Downward"]

[Text] In 1990, which just drew to a close, the net profit of China's township enterprises dropped like it had not in many years. This is the newest symptom of the continued drop in township enterprise economic efficiency over the last several years.

Experts at the State Statistics Bureau collected surveys from teams investigating rural social and economic

conditions in 22 provinces, autonomous regions, and municipalities directly under the central government. Estimates are that in 1990 the net profits of township enterprises equalled 50.2 billion yuan, a decrease of 2.6 billion yuan, or 5 percent, over the previous year's figure. At the same time, the number of township enterprises in these 22 areas that showed losses increased by 13 percent over the previous year, and the amount of their losses rose 23.3 percent.

Experts at the State Statistics Bureau have come up with the following analysis to explain these figures:

There has been no change in the overall situation: the market remains weak, township enterprise goods are commonly overstocked, and capital turnover is difficult. According to a survey by Jiangsu Province's rural inspection team, last year the production and sales rate of products from Jiangsu's township and village industries was only 64.6 percent, a decrease of 8 percent compared to the previous year. By the end of October, the value of inventoried goods in township industries had risen to 11.13 billion yuan, an increase of 16.9 percent over the same period in 1989. Due to overstocked goods and inter-enterprise debt, at the end of September the total amount of township industry funds tied up in inventories, goods shipped in transit, and sales accounts receivable reached 23.92 billion yuan, an increase of 26.2 percent over the same period in 1989. This resulted in a situation where already tight production funds were largely taken up. In the latter half of the year, banks loosened credit for township enterprises, but the activated funds were eaten up by overstocked goods and "triangular debt."

The burden of township enterprises is becoming heavier by the day. Repeated demands by the CPC Central Committee and the State Council have required that each locality reduce the burdens of township enterprises, but in reality the burden has increased, not decreased. According to a survey by Guangdong Province's rural inspection team, the burdens of township enterprises amount to more than 10 percent of their sales revenue.

Prices for raw and processed materials are increasing, and enterprises find it difficult to absorb the cost. Shaanxi Province's rural inspection team reported that the price of white sugar increased from its original price of 1,820 yuan per ton to 3,100 yuan per ton. The price of high-pressure polyethylene increased from 2,450 yuan per ton to 11,000 yuan per ton, thereby increasing enterprise production costs. Some existing problems in the area of rural enterprise management are also not easily overlooked.

The economic efficiency of township enterprises is down, creating even greater difficulties for adjusting enterprises' industrial structures and for technological renovation. Huang Haiguang [7806 3189 0342], head of the Township Enterprises Department at the Ministry of Agriculture, told this reporter that because of the lack of suitable conditions, in 1990 there were basically no

grounds for talking about industrial adjustments of township enterprises. Only a small number of strong, larger enterprises could launch new products. Many enterprises could only increase the variety of colors and designs, yet this displayed the adaptability of township enterprises.

Will the trend towards declining economic efficiency in township enterprises reverse itself in 1991? Experts believe the answer depends on whether township enterprises can improve product quality and strengthen management, and on the degree to which the overall economic environment continues to improve.

Zhejiang Township Enterprise Performance, Prospects

91CE0341A Beijing ZHONGGUO XIANGZHEN QIYE
BAO in Chinese 28 Jan 91 p 1

[Article by Zhang Yaode (4545 5069 1795): "Moving From Great Developments to Great Improvements"]

[Text] The striking of the New Year's Eve bell marked both the end of the Seventh Five-Year Plan and the beginning of the Eighth Five-Year Plan. Four years ago, Comrade Deng Xiaoping gladly praised, "Zhejiang Province has done a nice job in developing township enterprises." Today we are very happy to review the development of township enterprises over the past decade, and we look forward to the great improvements in township enterprises over the next 10 years.

Review

The rise of township enterprises has brought an end to the situation where China's agricultural economy was closed and in a state of stagnation. It has also broken up the dual economic structure characterized by the separation caused by a countryside engaged only in agricultural production and urban areas engaged only in industrial production. In this historic era the development of township enterprises has laid a new foundation for integrating rural and urban areas and for uniting workers and peasants. Township enterprises have created a new way to transfer surplus rural labor to industries by relying on their own strengths. Township enterprises have also produced a large number of farmer entrepreneurs who have a sense of the commodity economy and a knowledge of business activities and business management. The rise of township enterprises has not only provided a large quantity of effective supplies and exports, but has also cultivated many rural townships and small cities that have the economic function of exchanging commodities. More encouraging is the fact that, faced with severe competition, township enterprises have established flexible mechanisms to adapt to market competition and the breakup of the practices of "the iron rice bowl" and "eating from the same pot." Township enterprises have not only cured the chronic, stubborn disease of egalitarianism, but also have become an important economic mainstay in the rural economy. They are now the major sources of income for farmers.

and they have opened a new road for building socialism with Chinese characteristics. From 1979 to 1989, the number of township enterprises in Zhejiang Province rose from 87,000 to 500,000, an increase of 520 percent. The number of their employees grew from 2.14 million to more than 5 million, an increase of 140 percent. The value of enterprises' fixed assets increased from 1.44 billion yuan to 18.1 billion yuan, an increase of 1,160 percent. The gross output value of enterprises grew from 3.48 billion yuan to 65.7 billion yuan, an increase of 1,790 percent. Of this, the gross value of industrial output rose from 2.86 billion yuan to 59.1 billion yuan, an increase of 1,970 percent. The proportion of township enterprises' output value in the province's total industrial output value increased from 17.8 percent to 55 percent. The value of export deliveries rose from 90 million yuan to 4.489 billion yuan, an increase of 4,900 percent. Of this, direct exports increased from 1.7 percent to 29.8 percent of the province's total foreign trade. During these 10 years, township enterprises turned over a total of 6.04 billion yuan in funds to support agricultural development, spent nearly 1 billion yuan to supplement agriculture, paid 6.04 billion yuan in rural public welfare funds, and turned over profits worth 3.2 billion yuan to townships and villages. History will record this in its pages.

Lessons

In the face of these achievements, we should look clearly at our weaknesses and mistakes. Since the Third Plenary Session of the 13th CPC Central Committee proposed economic improvement and rectification and the implementation of the "double tight" policy, Zhejiang's township enterprises have met severe tests. In particular, there has been a big slump in township industries since the second half of 1989. By the end of June 1990, over 70,000 enterprises had been closed, temporarily shut down, merged, or restructured. There have been 850,000 workers who went back to farming. Over 10,000 projects involving capital construction or technological transformation were cut back. Investment decreased by 1.1 billion yuan. By paying such a price, the dangerous situation has been reversed, and over 9,000 key township enterprises have started holding their grounds. Industrial production has risen out of its slump and taken an upward turn. By the end of 1990, the growth rate reached 8.9 percent. This serious fact indicates that "the peasants are trustworthy." They unquestionably follow what the party's Central Committee wants them to do. However, it also shows that competition in a commodity economy has no mercy on anyone; good enterprises survive while poor ones are eliminated. This serious situation completely exposes the low overall quality and inadequate strength of Zhejiang's township enterprises. Actually, in some places township enterprises' scope of capital construction is too broad, their operations depend too heavily on loans, the growth of their consumption funds is too high, and their self-accumulation is too low. We must honestly examine and face our weaknesses.

Analyses

The last decade of the 20th century will be very crucial for China's economic and social development. In order for township enterprises to keep pace with the move of the historical wheel and develop in a sustained, stable, and healthy manner, we must carefully analyze favorable as well as unfavorable conditions at home and abroad.

As far as the international climate is concerned, the general trend of international peace and development is irreversible. Regarding the domestic climate, the Central Committee leadership has repeatedly affirmed the correct general line of reform and opening to the outside world since the Third Plenary Session of the 11th CPC Central Committee. Up to now remarkable achievements have been made in economic improvement and rectification. Central Committee and State Council leaders have repeatedly reaffirmed the role and status of township enterprises. They have emphasized, "The more you look at township enterprises, the more you will like them." They have also said, "China's modernization cannot be achieved without the development of township enterprises." At the same time, due to the growing emphasis on agricultural development, opening coastal areas, and the formulation and promulgation of a series of laws protecting township enterprises, township enterprises undoubtedly have new opportunities. Again, judging from the environment in Zhejiang, the severe tests of improvement and rectification have produced good changes, just like the Monkey King fall into ancient Laozi's alchemy furnace enabled him to obtain "sharp, bright eyes."

Over the past three years, more than 2 billion yuan has been invested in technological renovations in Zhejiang Province, over 2,400 new products have been developed, and more than 60,000 professionals have been trained. The first township enterprise to receive the award of first-grade national enterprise was in Zhejiang, and 12 other township enterprises received awards as second-grade national enterprises. Over the past few years, rapid technological progress has been made. Four products made by township enterprises were named excellent products at the national level, and 644 products were named excellent products at the provincial or ministerial levels. Over 1,000 new products were developed. Township enterprises withstood severe tests, and their strength was enhanced, not reduced. In view of this, the development of township enterprises is really a great cause, because the tenacious vitality of township enterprises prove that they are the only way to achieve rural industrialization. The development of township enterprises is a cause for the masses, because it has a popular base. It is a scientific cause, because it conforms to economic laws. Finally, it is a cause of hope, because it possesses strong vitality and historic inevitability.

Prospects

Achieving the ambitious goal of doubling township enterprises in Zhejiang Province in the final decade of

this century requires us to adjust township enterprises' structure, enhance their strength, improve their overall quality, raise their economic results, and shift the focus from developing township enterprises to upgrading them.

Adjusting township enterprises' structure means that we should develop areas in which Zhejiang Province is superior and avoid those in which it is inferior. Comparatively speaking, Zhejiang is not rich in natural resources; it is very rich in labor resources. Its basic industries are weak, but it has very strong processing industries. Although Zhejiang has few big and medium-sized enterprises, it has many seaports, and they are near Hong Kong and Taiwan. As long as we pay attention to scientific management and make progress in science and technology, we can not only fully utilize the superiority of township enterprises' business mechanisms, but can also take advantage of Zhejiang's superiority in light industries, small enterprises, seaports, and processing industries. We can reorganize our superiorities and reestablish our prestige.

We should enhance township enterprises' strength. In addition to using laws and regulations to protect township enterprises' rights and interests, we must in every possible way strengthen township enterprises' ability to achieve self-accumulation, self-development, self-control, and adjustment. We must put our limited labor, financial, and material resources into developing marketable products, and optimize and integrate existing assets. Potential productive factors must operate in full so as to guarantee the stable development of township enterprises.

We should increase the overall quality of township enterprises. Besides considering material factors, we must mainly raise the overall quality of employees, including their political, educational, technical, and managerial aspects. Through training, all managerial personnel in township enterprises can use administrative, legal, and economic means in their work to achieve scientific, modern, and legal management.

Raising economic results involves both enterprises' economic returns and social benefits. Township enterprises undertake the dual tasks of supporting agriculture and transferring surplus rural labor. Economic returns refer to comprehensive results. Through our efforts over the next 10 years, Zhejiang's township enterprises should simultaneously develop labor-intensive and technology-intensive industries, the latter of which should be the mainstay. We should also simultaneously develop the domestic and international markets, with the international market acting as the leader. We should simultaneously develop key and small enterprises, with enterprise groups as the mainstay. We should pay attention to major products that have local characteristics as well as competitive superiorities. We should establish a new configuration that has a strong ability to adapt to market

changes, has a high-technology base, is export-orientated, and offers better economic returns due to economies of scale.

FOREIGN TRADE, INVESTMENT

Article on Product, Technology Export

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[Article by Xia Guofan (1115 0948 3672). Edited by Responsible Editor Li Fei (2621 7236): "Preserve the Strategy of Combining Product Export With Technology Export"]

[Text] International technology trade has become very active in the wake of the rise of new technology revolution. On average, the world's present technology trade volume doubles each year, accounting for more than 30 percent of the world's trade volume. The annual amount of licensing trade volume is as much as U.S.\$40 billion. It is estimated that by the turn of this century, this figure will be increased to U.S.\$200 billion. Recently, China's science and technology has also made headway to join the grand international community, in which everyone is mutually dependent, and mutually competing, with each other, and has become one of the world's technology exporters. A new pattern of technology exporting marked by multiple levels, forms, and channels are gradually taking shape in China.

Amid reforms and opening up, China's aviation industry put an end to its closed-door state. While exporting "Yun 7" and "Yun 12" planes, aviation engines, and their component and spare parts, the industry had put more than 100 types of electrical and mechanical products on the international market. In 1989, the industry exported electrical and mechanical products worth more than U.S.\$200 million. Though we made remarkable achievements in exporting products by aviation industry for civil use, we have only started the export of technology for civil use. Of China's U.S.\$300 million export of technology in 1989, the proportion of technology export was very insignificant. We still have not completely put an end to the situation where we only import or purchase technology but never export or sell any. (Of such few technology export, the proportion of hardware was larger than that of software. This backward state of technology trade does not match our aviation industry, which is famous for its high technology, strong capability, and having many advantages. Therefore, we must understand the technology export from the perspective of being a national policy, strengthen the understanding about technology export, preserve the strategy of combining the export of products for civil use with the export of technology for civil use, manage to walk "with two legs," and quicken the pace of help the aviation industry generate more foreign exchange by moving toward the world.

In exporting the technology of aviation industry, we must observe the principle of emancipating our thinking, actively giving encouragement, working hard to make innovations, strengthening the management, making steady progress, and stressing on practical effects. We should gradually change the situation from "only importing or purchasing but never exporting or selling" into that of "both importing or purchasing and exporting or selling," and strive to maintain a balance, or to achieve a little bit favorable balance, in the technology export by aviation industry. We should economically and technologically use export to support import, and strive to make strategic break through within a short time. In order to achieve this goal, we must pay attention to grasping the work in the following "three areas."

I. To Keep the Technology Channels Clear

To keep channels clear, to commission agents, and to access information are one of the keys for all international companies engaging in technology export to success. However, the failure to gain quick access to information, blocked technology channels, and poor after-sale services are just the weak points of China's present technology export. Therefore, in addition to making full use of our present technology channels and overseas organizations, we must strengthen the building of "two networks"

1. To strengthen the building of "technology information network"

Generally, the volume of technology trade is in inverse ratio to the information we have accessed and the time efficiency in such respect. In order to gain an access to trade information, some foreign enterprises, as well as scientific research units, worked hard to gain an access to the international market. In order to put an end to the present situation in which China is isolated from the international technology market, all units of the industry from export-oriented group companies to enterprises and institutions with import and export authority should gradually set up foreign technology "windows," and should combine them with "windows" separately set up by technology import and export units, so as to form a closely linked business information network. Competent departments in charge of the industry must give guidance regarding the geographical location of such separately set up "windows," and clarify the duties and scope of area covered by permanent personnel, so as to accurately analyze the market situation, to determine tasks for studying, to promote technology development, to speed up the passing-on of technology, and to keep the technology trade channels clear

2. To strengthen the building of "after-sale service network"

Technology trade is much more complicated than commodity trade. In technology export, in addition to the delivery of technology information, technology document, and standardization, it is often the case that the supplying party must pass on the technology know-how

and practical experience in order to help the purchasing party master such technology, and to accomplish the whole process of technology trade. The complexity of work following technology trade makes after-sale services of technology much more important than those of commodity sales. Therefore, we must prepare in advance the after-sale service network, prepare in advance the service of tracking after the sales, and provide on preferential terms information and data on revisions of the exported technology, so as to update the level. This will attract more clients and expand the channels of technology export

II. To Locate Sources of Technology

There are different levels of technology to be exported, and the demand for it varies from country to country. Under the prerequisite of not undermining the state's security and economic interests, we should speed up the process of "turning military products into civil use," and actively locate sources of technology, so as to create material conditions for technology export

—Source one: Achievements of scientific research

Recently, China annually made about 10,000 items of major scientific and technological achievements, of which over 1,000 reached the international standard. In 1988 alone, 1,040 items of scientific and technological achievements made by the aviation industry were prize winners, including seven winners of the national innovation prize, 30 winners of the national scientific and technological progress prize, and 1,003 winners of the ministerial scientific and technological progress prize. Many of them might have overseas markets. Under the present circumstances where China's technology market is underdeveloped and its capacity of absorption is insufficient, we may select some scientific and technological achievements, and allow them to enter the competitive international market. For this reason, all units must act on their accord to straighten out and summarize their achievements, to promptly turn them into productive technology and technology for large-scale production, so as to improve their competitiveness. In order to increase the value of scientific and technological achievements, they should first submit patent applications in China to obtain patent rights. They should then transfer such achievements to foreign countries in the form of technology trade. Furthermore, they need to obtain patent rights from foreign countries to protect exported technology having a bright future

—Source two: Materialized technology

Materialized technology refers to technology-intensive products, technological products with high added value, and high-precision processed products that embody science and technology to a large extent. Generally, the amount of foreign exchange generated from simple export of technology on the technology trade market is very limited. Only technology involving equipment products, component and spare parts, and even such

with projects and labor services can yield high technology transaction volume, and can generate more foreign exchange. According to the principle of "taking aviation as the basis," the aviation industry must give priority to the export of such materialized technology as civil airplanes and aircraft engines, as well as their derivatives, aviation component and spare parts, precision instruments, precision forging and casting items, combined fixtures, testing apparatus, and other new products employing technology to a large extent. For instance, the eddy current sensor, as well as its instruments, developed by No 608 Research Institute, as well as the inter-related effect that gives full play to aviation science and technology, and give rise to the birth of new enterprises, are not only China's substitutes for its imports worth more than U.S.\$10 million from BN corporation of the United States, and Shen Guang [3947 0342] corporation of West Germany, but may also eventually enter the international market. Simply put, the aviation industry must pay attention to improving and repackaging its existing models, and improving the performance of China-made airplanes. It must also apply technology to a larger extent to the export products to upgrade and increase the value of products, and combine the export of whole machine with the production of component and spare parts, so as to achieve the goal of totally exporting by the industry aviation spare parts, assembled parts, and component parts worth U.S.\$300 million by the end of the Ninth Five-Year Plan, and to enter the international aviation market.

—Source three: Technology services

This mainly refers the provision of technology services such as drawings, data, process, formula, product design, quality control, operation management, and other aspects of technology expertise (or called know-how), or the acceptance of commissioning by foreign companies or enterprises to conduct feasibility study or to render consultation service regarding their projects. People of the trade held that China's aviation industry had remarkable advantages in terms of technology in respect of the manufacture of wave-edged vertical milling cutter, precision small-opening honing, epoxide powder spray, casting of high intensity aluminum alloy, and the manufacture of gas turbine; and that it should undertake service projects in a planned way. However, the transfer or passing on of technology expertise or know-how must be done through the form of contract, so as to make the other party fulfill the obligation of confidentiality, or in accordance with the principle of exchange at equal value, to make the other party exchange our technology with their high or new technology which is otherwise not available on the market. To prevent the proprietary technology from being plagiarized, it has become a typical international practice to adopt closed-type, self-destruction, maze-type, and other methods to oppose "reverse engineering." We may learn from this and apply such methods.

—Source four: Intelligence technology

Intelligence technology is a form of export technology, and is the world's highly potential, and endless regenerative resources. As the balance in supply and demand of intelligence was upset in terms of quantity and quality, there was always the case that some qualified personnel of the aviation industry became abundant and was lying idle. The industry may offer them to the international community in the form of international technology cooperation, as well as international personnel exchange, and allow them to provide intelligence service to foreigners. It may make use of the channels of China International Technological Intelligence Cooperative Corporation to promote the export of intelligence in the industry as a whole, so as to put an end to the situation that the aviation industry mainly exported laborers and low-technology labor services, and to upgrade the export of labor services.

III. To Develop the Export Markets

China does not have a traditional technology export market, and an international sale network has yet to be formed. Therefore, we should make use of technology trade fairs, technology information conferences, provision of samples, and mutual exchanges to strengthen the promotion activities concerning technology export, and to continuously develop technology export markets.

1. Develop the export of technology to Hong Kong

At present, Hong Kong is readjusting its composition of products. Its economic development is heading toward the technology-intensive pattern, and its industry is moving toward the high-technology ones. Since most of Hong Kong enterprises are medium-sized and small ones, it is difficult for them to make a large sum of investment in scientific research. Moreover, they lack a long-term accumulation of scientific research, and high-technology personnel. In today's situation where technology protectionism, and technology blockade are becoming intensified in the West, Hong Kong has begun importing technology from the mainland China. In addition, the cost of China's scientific and technological achievements, as well as technology commodities, is relatively cheap, and is thus highly attractive. Making the best use of the situation, the aviation industry has worked hard to gain support in Hong Kong for its technology for civil use. It also made use of the advantages that Hong Kong's businessmen had extensive overseas connections, and were familiar with the market and foreign business etiquettes to use Hong Kong as the "springboard" for further developing its aviation technology for civil use in countries and regions whose production scale, technology level, and equipment conditions similar to those of Hong Kong. Under the precondition of not violating the provisions of contracts, it strived to obtain the right to sell to different parties and to allow them share the same technology, so as to continuously increase the value of export technology.

2. Set up sale outlets in Europe and America.

In the wake of formation of the European Common Market and the North American free trade zone, multinational corporations are adopting the "alliance strategy" in these areas. They further expand and consolidate their activity strongholds through cooperation with local enterprises. At present, China has approved to establish overseas 526 "three types of enterprises using foreign capital." The aviation industry must follow the example of Capital Steel Mill, which started multi-national operations by purchasing most of the stock of the U.S. Maisita [7796 2448 1044] corporation. It should depend on the economic strength of enterprise group companies as a whole, and open its markets in developed countries. It may directly invest in, or purchase the stocks of companies in member countries of the EEC, or may contribute technology as capital of joint ventures and cooperative enterprises to produce their products on the spot. This thus avoids barriers set by the EEC such as quota and restrictions, eliminates exploitation by middlemen, saves time, reduces the production cost, and strengthens the competitiveness of technology products in terms of pricing. In respect of the development of certain high and new technology, it may strive to start such cooperation right at the stage of scientific research, so that the products developed will be under the protection of a uniform market.

3. Stabilize the development of China's market.

Some of China's practical technology, as well as technology for industrial production, are well received in the developing countries. We must actively carry out the study and development of forward subjects, improve our capability to export technology, and stabilize the markets in developing countries, including our market share in South American, African, Middle East, and Southeast Asian countries. As the developing countries do not have sufficient capital or qualified personnel, we must provide the technology in the form of commodity, and sell it together with corresponding equipment, so that the users can easily utilize it for production.

4. Develop a new way to open the technology market.

There is a highly potential market among members of COMCON, which includes the Soviet Union and Eastern European countries. In July 1989, China's science and technology exhibition held in Moscow attracted wide interests from various circles in the Soviet Union and Eastern European countries. China's traditional technology projects, inventions made by the aviation industry on the basis of technology partially and wholly imported from the West after the opening up, and electric home appliances using technology turned from military use into civil use, particularly precision instruments and apparatus and their products, were highly attractive to the Soviet Union and Eastern European countries. We must introduce the form of commodity trade to technology trade, and develop a new way to export technology.

Prospects for Sino-South Korean Economic Relations

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[Article by Yi Chong-yong (2621 6988 3057) of South Korea: "Prospects on Sino-Korean Economic Cooperation" (1)—This article is translated by Liu Jipeng (0491 4764 7720)]

[Excerpts] 1. Introduction

Northeast Asia (China, Japan, and Korea) is rapidly becoming a force of major influence in the political and economic situation of the world. This region has a third of the world's population as well as a third of the world's trade. The political climate around the Yellow Sea not only affects countries around the Yellow Sea but also has direct influence on other major powers of the world.

The economic development of this region is conducive not only to the improvement of political environment but also to the alleviation of military situation. In today's world, a country's economic development cannot be achieved in a state of isolation. Equal trade relations and cooperations established on the basis of mutual benefits are the basic requirement of economic development for all countries.

It is under this prerequisite of facilitating world development that the economic cooperations of Korea and China are developing in-depth. Both sides clearly understand that they need such mutually beneficial economic cooperations. At the same time, the good economic development of Korea and China will have a great impact on the political progress of the Yellow Sea region.

The purpose of this article is to briefly review the current situation of economic cooperation between Korea and China, clarify issues, and explore the future. [passage omitted]

3. Economic Cooperation With China

A. Trade. Since the beginning of the 1980's, under the favorable condition of increasingly relaxed political and economic situations, Korean trade with socialist countries, including China, has rapidly increased at an annual rate of 20 to 40 percent. By the end of 1989, the total volume of trade reached \$4.2 billion (including \$2 billion exports and \$2.2 billion imports). These socialist countries have become Korea's fourth largest trade partner, next to the United States, Japan, and the EEC.

Sino-Korean trade relations began in 1979 when China first implemented the policy of opening up to the outside world. In that year Korea exported \$4 million of goods to China and imported \$15 million. By 1989, despite the fact that China and Korea had not established official diplomatic relations, Korea's exports to China rapidly increased to \$1.4 billion while imports shot up to \$1.7 billion. Apparently the trade between the two countries has made great development in the 10-year period. In

1989 China accounted for 2.2 percent of Korea's total exports and 2.7 percent of Korea's total imports (becoming Korea's sixth largest trade partner). In the same year, Korean trade accounted for 3.2 percent of China's total exports (\$52.5 billion) and 2.4 percent of China's total imports (\$59.1 billion) (becoming China's fifth largest trade partner).

In 1988 Korea's main export goods were electronic products (40 percent), chemical products such as plastic materials and chemical fertilizers (18.6 percent), machinery (16.4 percent), and synthetic fibers materials (11.5 percent). In 1987 Korea's main import goods were cotton and yarn (34 percent), coal and crude oil (16 percent), steel products (14.3 percent), and grain.

Since economic cooperations between China and Korea are still in the beginning stage, most trade between the two countries has been conducted through a third country such as Hong Kong, Japan, or Singapore. Of course recently the trade relations between the two countries have been improved, which resulted in the direct shipping of major commodities such as steel, grain, and coal.

B. Investment. The conditions of Korean enterprises who are seeking overseas investment opportunities are: 1) Avoiding trade frictions; 2) saving labor cost; 3) guaranteeing raw materials; and 4) transferring the production and marketing places of middle-technology products which have entered the maturity period in the domestic market. These conditions of Korean enterprises happen to meet all the actual needs of China where a reform is being carried out.

Recently some new developments concerning the Chinese investment of Korean businessmen have been followed with close interest. Large investment projects (over \$10 million) have begun to develop. For instance, a piano factory (\$18 million) has been organized for construction in Harbin, and an automobile part plant (\$10 million) has been invested in Qingdao. Many Korean companies have established branches not only in Beijing but also in other cities such as Dalian, Shanghai, and Huzhou. Some cargo ships have also directly entered China from South Korea (accounting for about 30 to 40 percent of total trade volume).

Many more projects are still under negotiations. For instance, a color television project is being negotiated in Hainan Province and Tianjin Municipality, a VCR project in Hainan Province, a steel pipe project in Shandong, and a valve project in Yantai. But generally speaking, due to various not-so-desirable factors in China's investment environment, most of the investment projects which have been carried out are on a very small scale. They are still in the experimental stage. Besides, most of the investments are in the areas of stuffed toys and electronic products, and other light industrial areas.

C. Typical cases of Korean investment projects in China. Despite the fact that Korean enterprises just started to

invest in China in 1987, they have gained valuable practical experience not only in the analysis of economic feasibility but also in political environment. The following are some typical cases.

The electronic industry: The Gold Star Company and an enterprise under the Guangdong Provincial Government jointly built a color TV production plant with the former investing 53 percent and the latter, 47 percent. The negotiation began in early 1988. The plant was completed and put into operation in early 1990. An expert group of the Gold Star Company visited China and began to design the building of the plant in March 1989. This joint venture, which is called the Zhuhai Gold Star Company, was officially founded after its \$5 million first phase of construction was completed. This company will produce 150,000 color TV sets a year. Its products will be sold mostly in the domestic market, and some will be exported. In the early 1990's, it will expand investment to produce air conditioners, vacuum cleaners, electric rice cookers, and loudspeakers.

The Samseong Electronics Company signed a contract with the Fengli Company, which is registered in Hong Kong, in February 1989. The Fengli Company has a recorder production plant in Shenzhen. Under the trade mark, quality certificate, and technological guidance of Samseong, this plant produced 170,000 sets a year. However, Samseong did not make direct investment in this project. The initial considerations of the Samseong company are: 1) investing \$50 million in Beijing to build a color TV plant with an annual capacity of 500,000 sets; 2) investing \$5 billion in Shenzhen to build a color TV plant with an annual capacity of 200,000 sets; and 3) investing \$10 million in Zhuhai to build a VCR plant with an annual capacity of 250,000 sets. However these projects are merely the future intermediate-term plans of the Samseong Company.

In June 1988, the Samseong company negotiated with the Dongbei Color Kinescope General Plant on building a color kinescope plant, but it terminated this investment plan before signing a contract because it thinks that it cannot recover investment within a short period of time.

The Daewoo Electronics Company built the Fuzhou Refrigerator Plant in Fuzhou, which is the first Korean investment project in China. The total investment of the plant is \$12.57 million. The Daewoo company's investment accounts for 48 percent of the total investment. This plant officially began operation on 13 June 1989 and produced and sold 100,000 refrigerators in the same year. This plant produces 300,000 refrigerators a year. Most of its products are sold in China, and some are sold to neighboring countries. Currently both sides have agreed to build another plant next to the refrigerator plant to produce 250,000 compressors a year. The total investment is \$20 million with each side contributing a half. The investment agreement was completed in August 1988, and the plant was expected to go into operation by the end of 1989.

Steel products. The Korea Steel Pipe Company and the China Metallurgical Company originally intended to jointly invest \$30 million with each side contributing 50 percent to build a steel pipe plant with an annual production capacity of 60,000 tons, which was expected to go into operation in early 1989. However the execution of this agreement was postponed. The reason was: At first both sides planned to sell half of the products in the domestic market and export the other half; they also planned to jointly supply hot rolled steel rolls, which are used to make steel pipes and need to be imported. Later the Chinese side demanded that this agreement be changed so that all products will be exported and all raw materials which need to be imported will be supplied by the Korean side with their foreign exchange. The Koreans thought that it was difficult to carry out this project under such conditions.

The Incheon Iron Mill also suspended talks on building a metallurgical plant in China. This Korean company planned to build an enterprise producing silicon and other compound metals in a certain place of China where there is sufficient electricity and prices are low. It planned to sell part of its products to Korea to be used in the production of steel products. After several rounds of negotiations, the Korean side could not obtain any guarantee of investment from the Chinese side. The Chinese side also demanded that all products be exported. The Korean side also worried about possible problems concerning the remittance of profits. Besides, the estimated construction cost of this plant was much higher than the original estimate.

The Dongbu Steel and Steel Engineering Company and the Dongyang Tin Plate Company jointly negotiated with China on building a tin plate plant, but the negotiation ran aground due to such issues as the supply of steel plates, the equipment of the plant, and the conditions of technology transfer.

The Tokyo Industrial Company tried to invest \$2 million to build a toy factory in China, but the plan was shelved due to changes in the conditions of both sides.

The toy industry. The Lucky Goldstar Company is building a stuffed toy and electronic toy project in China and trying to put it into operation in 1989. This company invested \$480,000 (accounting for 50 percent of the total investment) to provide production equipment and technology and will be responsible for the export market of the products. This joint venture, which is named Beijing Jingle Industrial Limited Company, has already been completed. It produced and supplied stuffed toys (mostly in the form of the panda bear) to the 1990 Beijing Asian Games.

The mining industry: The Seongeong Group is negotiating on an investment project of phosphate ore dressing plant. The first phase of investment is \$500,000. The selection of factory site, the technological permit, and

the marketing of products are being studied and discussed. Concrete results are to be obtained with further efforts.

The hotel industry: After the successful Fuzhou refrigerator project, the Daewoo Group is now negotiating on a large 500-room hotel project in Beijing, but the final result of this project is unclear due to a series of issues including the uncertainty of funds of the Chinese partner.

The textile industry. The Dongkuk Trading Company shelved a plan to build a synthetic textile mill in Hubei. The main reasons were the uncertainty of the remittance of profits and high investment costs resulting from poor infrastructure. The Chongnam Textile Company also cancelled a plan to build a cotton mill in China due to the projection of low productivity and a low investment recovery rate.

Optical products: The Korean Joil Optical Company is preparing to build an optical factory in both Beijing and Shanghai. It has already exchanged a memorandum with an American company representing the Chinese side. The original plan was to sign the final contract and break ground in 1989. But due to the special fees of technological permit, personnel exchange, and other uncertain factors, this project was forced to be postponed till 1990.

Foods: The Samyang Food Company agreed to build the Qingdao Samyang Food Limited Company, which is a joint venture with the Second Qingdao Food Plant. Samyang invested \$3 million (50 percent holding). The company was completed at the end of 1989.

Medicine: The Guangdong Pharmaceutical Company is preparing for the construction of a penicillin plant. The two sides are now exchanging letters of intent and people from both sides are negotiating with each other.

4. Problems in Korean-Sino Economic Cooperation

During the short history of Korean-Sino economic cooperation, the import and export trade between the two sides has increased markedly, but the progress has been slow in the investment field. Between 1987 and 1989, only 30 projects started construction or signed contracts, and many others were still in the stage of negotiation. Considering the unusual political relationship between the two countries, it is impossible to have great progress in the investment field. Currently achieved progress is much lower than the expectation of Chinese counterparts. Main problems are as follows:

A. The difference of interests:

Although Korean companies and Chinese enterprises are both interested in cooperation, the interests of the two sides are often different. The Chinese side is interested in: 1) increasing exports; 2) getting technology and management experience; 3) attracting capital investment; and 4) long-term projects. Korean entrepreneurs are more interested in: 1) the export market of their

products; 2) the use of cheap labor; 3) getting cheap raw materials, and 4) short-term projects.

B. Risks:

Due to the different political and economic systems of the two countries and the absence of diplomatic relations, Korean entrepreneurs worry that changes in the political and economic policies of the Chinese government might affect foreigners' business activities. The Chinese Government has signed investment insurance agreements with 16 countries, and Korea is not among them. The constitution of the PRC (the 18th article) and the joint venture law (the second article) "guarantee" the rights of foreign investments, but they cannot dispel the misgivings of businessmen who come from Korea—a country which has not been officially recognized by China. Since they do not have the experience of doing business in China, Korean companies feel that there are great risks especially when it comes to projects under the control of state plan.

The strict foreign exchange control system of China has made Korean businessmen very concerned about the remittance of profits and such questions as how to get imported raw materials. With regard to the issue of the depreciation of renminbi, some people think that even the exchange rate set by the foreign exchange regulation center is inflated.

D. The restriction of the domestic market:

Many Korean businessmen consider China as a market on which to sell their products, but the Chinese government has restrictions on selling the products of joint ventures on the domestic market. It only encourages those projects whose products are to be exported.

E. The insufficiency of infrastructure and communications system:

Road and transport systems, water and electricity supply, and telephone and other communications systems need to be further developed.

F. Relatively high cost:

The cost of starting an enterprise in China is relatively high. The supply of staff members, workers, and equipment and the ratio are all controlled by the foreign enterprise service company which is run by Chinese officials.

G. Relative advantages:

Korean enterprises have several choices of overseas investment in addition to China. Investments in the United States and Japan have smaller risks and relatively easy access to the market. Central America such as the Caribbean area has cheap labor and indirect access to the U.S. market. Southeast Asia also has cheap labor, a familiar management environment, and smaller risks. Hungary can provide an indirect access to the EC market. The Siberian Development plan of the Soviet

Union has provided many long-term opportunities. Hungary, Poland, Yugoslavia, and many other East European countries have established normal diplomatic relations with Korea and built embassies and trade organizations in Seoul. The Soviet Union has also established a counselor section that can issue visas and a trade agency in Seoul.

The political situations of Korea and China have also made Korean entrepreneurs run into problems in trade and investment activities in China. Eight Korean companies have offices in China, but due to the restrictions of the Chinese government, they can only use the name of a third country. In 1988 and 1989 Korean trade organizations sponsored trade fairs of the "Republic of Korea" in Budapest and Moscow and flew their national flag, but they cannot do the same in Beijing.

What kind of favorable conditions can China provide Korea in the short run? As far as Korean entrepreneurs are concerned, South Asian countries are all excellent choices. In 1988 Korea signed 118 investment agreements, and only 11 are in China. Of the 15 shoe manufacturers which started operation in Southeast Asian countries, 11 are in Indonesia, two in Thailand, and none in China.

By the end of 1988, 18 overseas Korean electronic investment projects started operation or gained approval. Seven are in the United States, three in Thailand, two in West Germany, and one in each of Portugal, Turkey, Japan, France, Indonesia, and China. The one in China appears under the name of a company which is registered in Hong Kong.

In 1988 the Korean government conducted a comparative research on 10 Asian countries to study the feasibility of building a "Korean Industrial Zone." The research stressed land price, labor cost, and layout. The Cavite Export Processing Zone (700,000 square meters) of the Philippines, which is 20 km from Manila, and the Biyagama Free Export Zone (1 million square meters) of Sri Lanka, which is 24 km from Colombo, were used as examples. Korean companies hope to enter these industrial zones in the late 1990's.

5. Conclusion—Prospects for Korean-Sino Economic Cooperation

Although there are still some problems in Korean-Sino economic cooperation, judged from the angle of mutual benefits, these problems can be resolved.

The basic principle of economic cooperation is to clarify and effectively combine the comparative advantages of both sides under the prerequisite of mutual benefits. There are three main reasons for a company to invest in a foreign country: 1) improving the supply of raw materials, 2) increasing productivity, and 3) expanding markets.

Korea has a middle level of technology. It originally comes from hi-tech countries and has been readjusted to

suit the situation of Korea. After transfer, such technology can be more easily absorbed by Chinese industries than high technology which is more suitable for developed countries. Korean management techniques and style are also more suitable for China. Korean companies have greater financial capabilities. Korean entrepreneurs are experienced on the international market and have more flexible means of promotion.

China has abundant qualified, relatively inexpensive labor, cheaper land, and more raw materials as compared to Korea. China has a huge potential domestic market. Judged from this aspect, China is much more superior than Southeast Asian countries. Although U.S. and Japanese investors are ahead of Korea in China, Korea has natural appeals to China because of its continuously growing economic strength and its geographical and cultural proximity to China.

Both sides should consider each other as partners in the long-term cooperation of economic development. By the year 2000, the per-capita GNP of China which has a population of 1.3 billion will reach \$1,000 while the same norm of Korea will surpass \$10,000. With advanced electronic technology, Korea will become a good partner in such cooperations.

To turn such potential into a reality, the governments of both countries should make efforts to sign trade and investment protection agreements to reduce risks. Communications and travels between the two countries should be made easier by going through direct routes, and visas should be obtained without third countries. Residency established for business purposes should be made easier to obtain. Trade agencies should be established as soon as possible in the capitals of both countries.

China is a potential economic giant that is just waking up. Korea should establish a good cooperative relations with China during this period so as to gain experience in dealing with Chinese enterprise counterparts and share profits with them in future economic cooperations.

Footnote

1. China has no diplomatic relations with South Korea yet. This article is written by Yi Chong-yong of South Korea. Please note that in this article, South Korea is referred to as Korea which is not changed in this article for it is a translated version.

Problems Concerning Renminbi Exchange Rate, Adjustments

91CE0304A Tianjin NANKAI JINGJI YANJIU
[NANKAI ECONOMIC STUDY] in Chinese No 6,
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[Article by Chen Biaoru (7115 1753 1172), Professor of Economics at the East China Teacher's University in

Shanghai: "On the Issues of the Pegged Exchange Rate, Flexible Exchange Rate, and the Renminbi Exchange Rate"]

[Excerpt] [Passage omitted] B. The Issue of the RMB Exchange Rate System and Exchange Rate Adjustments

I. The Issue of the Exchange Rate System

The basic issues in a developing nation's exchange rate policy are: (1) How to choose an exchange rate system, that is, based on what standard should the country set the price of its currency against foreign currencies? (2) How to readjust the exchange rate, that is, how to change the price of the country's currency against foreign currencies after it has decided on its exchange rate arrangement? Here, the choice of exchange rate system plays a determining role. Since the collapse of the Bretton Woods system, the exchange policies of the developing nations have undergone some changes, and instead of the adjustable parity price system, there are now many choices. This evolution is closely tied to the effects of the floating exchange rates on the economies of the developing nations.

Since 1985, China's restructuring of the economic system which centers in the cities has provided the necessary conditions for improving the RMB exchange rate system. Beginning on 1 January, with the abolition of "internal settlement prices" and the restoration of the single exchange rate system, people have focused their attention on choosing an exchange rate system for the RMB—pegged or floating or a flexible arrangement that lies between the two? At present, the RMB is pegged to a basketful of convertible currencies, and the exchange rate is adjusted as the value of that basket of currencies changes. The power variable of each of the currencies in the basket is determined based on its importance in China's foreign dealings and on the trend of its relative value. The RMB to U.S. dollar exchange rate is set directly in the currency basket, and the exchange rates with the currencies of other countries and regions are calculated based on their respective exchange rate with the U.S. dollar. Considering China's real conditions, the pegged exchange rate has more disadvantages than advantages. This point has already been discussed earlier. In the future, China should make a transition from the pegged exchange rate to a more stable but flexible arrangement, that is, implement a flexible exchange rate system with planned management. What is the best choice of exchange rate depends on what the country considers the most important factors, such as the macroeconomic situation, to what degree is the economy an open economy, its import-export trade structure, the inflation rate, the reasons behind the fluctuation in the balance of payments, how well-developed the financial market is, as well as the long-term developmental strategy. China is a large country, unlike some small countries which have a flexible arrangement with the U.S. dollar only or others that act in blocs, which makes the limited flexible system more difficult to implement. On the other hand, the RMB is not an international

currency; unlike the major Western currencies, it cannot float independently in international transactions. Thus, the program to "readjust the exchange rate according to a set of norms" appears to be a good choice. The important point is, the financial authorities should make routine and skillful adjustments of the exchange rate according to a set of norms, so that the RMB reflects the supply-demand conditions as it affects the supply and demand of foreign exchanges, and thus the state can readjust and manage the exchange rate through the foreign exchange market mechanisms, in turn, establishing an operational system which combines the planned economy and market adjustments. This exchange rate system has many unique features:

1. In contrast with a modest increase in the fluctuation range, when the exchange rate is stuck either at the upper or the lower limit, a planned, flexible exchange rate allows the readjustment of the parity price and keeps the exchange rate compatible with the basic economic conditions, thus avoiding a possible balance of payment crisis caused by the delay in making parity price adjustments.
2. In contrast with a substantial increase in the fluctuation range, a small readjustment around the parity price can ensure that the change in the exchange rate will be kept within a narrow range in the short-term. Since the change in the exchange rate is minimal, it will not have serious repercussions.
3. Compared to the managed floating rate system, the planned flexible system relies primarily on man-made forces, supplemented by market forces, while the managed floating rate system is just the reverse.
4. Compared to the fixed but adjustable exchange rate, the planned flexible exchange rate system has the advantage of being more versatile because the exchange rate keeps on changing within a narrow range. Parity price can be changed but the amount of readjustment is limited both in the long-run and the short-run, while under an adjustable but fixed exchange rate system, the exchange rate may change suddenly, and more often than not, the change tends to be a sharp jump.

Under China's current conditions, in order to achieve reasonable economic growth and maintain our balance of payments status, we must be decisive and systematic in changing the RMB into a planned flexible exchange rate system in order to bring about the organic integration of planned control and market regulation.

II. The Exchange Rate Adjustment Issue

A planned flexible exchange rate system for the RMB means practicing management by objective in the adjustment of the exchange rate. Management by objective means setting a target range or determining the magnitude of adjustment of the exchange rate between the RMB and foreign currencies according to the goal set by the nation's economic plan. Whenever the exchange rate exceeds this range, the government should intervene to

bring the rate back to range, and it should revise the target if the economic situation changes.

A country's exchange rate policy has three main objectives: One, to maintain basic balance of international payments; two, pursue steady economic growth; three, promote rational allocation of resources. To realize these policy objectives, when we design the exchange regulation mechanism, the first crucial issue we are faced with is how to determine the target exchange rate. Among the developed nations, rarely are the exchange rates determined entirely by the market. Most countries have adopted the system of pegged exchange rate. The rates are set by the governments, and foreign exchange transactions are guided by the parallel foreign exchange markets. China's situation is similar. Thus, we should refer to the ways these countries determine and adjust their target exchange rates. Here I will explain some of the principal methods by which target exchange rates are determined:

(1) The balance of payments method: In this case, the government sets the proper exchange rate and the magnitude of readjustment according to the interacting relationship between the exchange rate and the balance of international payments. Because the balance of payments is a comprehensive reflection of a country's foreign economic activities, it is tangled up in a complicated knot with the country's basic economic conditions. If we determine or adjust the exchange rate according to the economic situation, it makes it easier to maintain the exchange rate at a proper level. Many developing nations routinely conduct elasticity analyses of their balance of payments, that is, they assess how a change in the exchange rate can help improve their balance of payments by analyzing the elasticity of demand for imports and supply of exports so as to determine their target exchange rates and the magnitude of adjustments. The goal is to improve their balance of payments. South Korea and Chile, among other nations, have tried this method in the 1960's and 1970's. The principle behind the readjustment of the exchange rate according to the balance of payments situation is, if there is sustained negative balance of payments, the exchange rate should be adjusted downwards slightly. If there is sustained positive balance of payments, the exchange rate should be adjusted upwards by a small amount. If there is balance of payments, the exchange rate should remain unchanged.

(2) The actual effective exchange rate (effective exchange rate is used to calculate the effects of a change in the exchange rate on the country's trade deficit; it is the weighted average of all bilateral exchange rates) method: The method of using the actual effective exchange rate to determine or adjust the exchange rate is to link the exchange rate to the price of export commodities. The exchange rate is determined or adjusted through a change in the price (or cost) of the country's own products relative to foreign products. The purpose is to compensate for the fairly high rate of inflation at home. Since enterprises' ability to compete abroad is indicated

by the change in the actual effective exchange rate, the effective exchange rate index will reflect the average change in the country's exchange rate relative to the exchange rates of other countries after deducting the price change factor. If a country's actual effective exchange rate goes up, its exports will become less competitive and foreign imports will become more attractive, thus exacerbating its negative trade balance and creating a balance of payments problem. If competitiveness abroad is our major concern, we should calculate the relative change between the RMB and the currencies of our major export competitors and use the actual effective exchange rate to measure the effect of a change in the RMB exchange rate against the foreign currencies on the trade balance of this country. Here, the policy goal is to maintain the stability of the real effective exchange rate and implement the guiding principle of serving to develop foreign trade

(3) The profitability of foreign trade commodities: We need to analyze the profit to cost ratio of staple foreign trade commodities and calculate the cost of domestic goods produced per unit of foreign exchange earned and the cost of import substitutes produced for each unit of foreign exchange saved and then determine the target exchange rate and the amount of adjustment based on the principle of comparative advantages, so as to increase the foreign trade enterprises' profit and achieve the goal of producing more exports and import-substitutes. In the 1980's, Hungary and Romania and other countries tried this method. This is similar to the system China at one time used of calculating the weighted average cost of earning foreign exchange in exporting. The method was too inflexible and failed to adjust properly and promptly to the change in the cost of export goods relative to the amount of foreign exchange earned

(4) The method of keeping the current exchange rate as the permanent target exchange rate and regulate the exchange rates through direct or indirect interventions. Countries such as the Dominican Republic, Panama, Libya, and Haiti are practicing this system

(5) The free foreign exchange market rate: One way is to treat the free market exchange rate as the target exchange rate, as Argentina (since 1983), Chile, Uruguay, and Chad do. Another way is to treat the foreign exchange market price as the norm for the target exchange rate, linking the official and market prices, and the rate is adjusted based on the differential between the two prices. Countries such as Saudi Arabia and Uganda have adopted this system. The Saudis set the target exchange rate at 70 percent of the market price

Today, how should we determine the RMB's target exchange rate? Obviously, it should be determined based on the state's general and specific policies during a specific period of economic development. The Seventh Five-Year Plan proposal suggested that the period's overall guiding principle in China's economic strategy was to uphold the policy of enlivening the domestic

economy and open up to the outside world, to "make good use of the economic levers, such as prices, exchange rate, and tariffs, so as to encourage the production of export goods" and to "readjust the exchange rate properly as prices change in the domestic and international markets." This is the guiding principle for today's exchange rate policy. To meet this requirement, we must give full play to the exchange rate as an economic lever and implement an exchange rate policy which encourages export and maintains balance of payments. Under this guiding principle, the target exchange rate should emphasize the interacting effects between exchange rate and the macroeconomic variables. Generally speaking, in determining the proper exchange rate level, we should consider the country's production, consumption, balance of payments, foreign exchange reserve, foreign trade conditions and tariffs, as well as the subsidies it provides, and so on. The most ideal method is to adopt a timeless, multisector general equilibrium model and combine actual production with financial transactions to find the best exchange rate level which satisfies the objective economic conditions as well as the various norms and use that practical exchange rate as the basis for making adjustments. However, since systematic economic data are extremely scarce and the government's future policy goal will not be determined any time soon, this method is very difficult to carry out in practice. A more workable method may be to adopt a multiple-direction, partial equilibrium model rather than the all-encompassing, optimal model. This means the financial authorities must set a target exchange rate which should as much as possible reflect the economic factors which determine the long-term changes in the exchange rate and, by means of interventions, keep the real exchange rate within an acceptable range around the target rate, or in other words, keep the exchange rate within the "target range." One way the financial authorities estimate the target exchange rate is to use several economic variables as policy goals and use the statistical indices which reflect those economic factors to predict the trend and adjust the exchange rate skillfully based on this set of indices

The general principles in choosing the practical target are: (1) to maintain the balance of payments, (2) maintain relative price stability, (3) maintain a proper reserve level, (4) stabilize the foreign trade conditions, (5) stabilize the actual effective exchange rate, (6) minimize the fluctuations in real income. This set of norms is made up of all the norms that reflect the economic trends. Since different countries have different policy goals, the norms will be different. China lacks many important, systematic data and can only choose a few of the main indicators as the basis for determining the target exchange rate as it proceeds to manage the exchange rate by objective. If the value of the statistical indices should change, the target exchange rate should also be adjusted accordingly. A simpler method is to make balance of international payments (B) the basic framework and determine the target exchange rate level according to the actual effective exchange rate (E), the foreign trade commodities

profitability (P), and the international reserve (R). If W is the policy goal function and B, E, P and R are the independent variables, then $W = f(B, E, P, R)$.

The financial authorities use the above four economic variables as a policy goal to estimate the target exchange rate (this is the same as using the index of the composite changes in the economic indicators, which are the factors behind the exchange rate changes, to estimate the target exchange rate) and make skillful adjustments of the exchange rate according to this set of norms to achieve the preset "target range". This is a kind of flexible exchange rate system under the state's planned management. Using several norms, the exchange rate can be changed in an orderly fashion, similar to the systems of "crawling pegged rate" or "sliding parity price" practiced in some countries. Under the system of crawling pegged rate, the exchange rate is basically stable but may change regularly within a narrow range; each change may be around 2-3 percent on an annual basis. The advantages of this system are: (1) it prevents the exchange price from being too volatile; (2) it prevents the country's own currency from being over-valued if there is chronic inflation at home. But China is a large country but underdeveloped economically and financially. Its market mechanisms are unsound and access to information is poor, and therefore the relay of changes in the exchange rate is very slow. Under the circumstances, to make small, regular adjustments will not be very effective and will only make foreign trade operations more difficult to handle. Thus, China must make use of a flexible exchange rate regulation mechanism, that is, make proper, periodic adjustments of fairly significant magnitude. Every six months to a year, we should make an adjustment, and each adjustment should be at a rate of 5 to 20 percent on an annual basis. A flexible exchange regulation mechanism will satisfy the needs of economic and foreign trade developments and still keep the exchange rate relatively stable. A stable exchange rate is absolutely essential to an open economic system.

III. The Issue of Decontrolling the Foreign Exchange Market

To achieve the target mode, we must have the proper conditions, especially an open foreign exchange market.

China has always followed the guiding principle of "centralized administration and unified management" when it comes to foreign exchange and has created a closed administration-oriented foreign exchange fund management system. This kind of rigid foreign exchange management and allocation mode has led to stagnant circulation, improper allocation, misuse and other defects; it violates the objective economic laws and does not meet the needs of socialist commodity economy.

To enliven the foreign exchange market, we must restructure the current foreign exchange regulation system, bring in a more substantial market mechanism, remedy the defects and inadequacies of the system of centralized planned allocation of foreign exchange and

to make sure that the foreign exchange resources are allocated properly and utilized fully. In the reform process, we cannot completely decontrol the foreign exchange market overnight if we want to avoid severe fluctuation in the exchange rate which will upset the economy. We must decontrol the market gradually by first setting up a regional, closely managed foreign exchange market. The important points are:

(1) The source of foreign exchange transactions. Retained foreign exchange owned by enterprises and institutions, foreign exchange managed by the "three kinds of wholly and partially foreign-owned" enterprises as well as their foreign exchange income, foreign exchange invested by foreign businesses, and privately owned foreign exchange may be bought and sold freely in the foreign exchange market.

(2) The use of foreign exchange funds. Units that buy foreign exchange in the foreign exchange market should be checked carefully before allowed to do so. They generally include: (1) enterprises and institutions with import permits; (2) "the three kinds of wholly and partially foreign-owned enterprises" and other units or individuals with documented foreign exchange regulation permits. However, we must draw up a foreign exchange input list and weigh the pros and cons, separate the urgent and the unimportant, and guarantee the important projects. In this way, we can control the demand and the use of foreign exchange and stabilize the market exchange rate.

(3) The foreign exchange market organizations. Those who supply and demand foreign exchange cannot engage in direct buying and selling and must ask the designated banks to handle the transactions on their behalf. The designated banks engage in foreign exchange transactions on behalf of their clients in the foreign exchange regulation center and obtain a fixed fee in return for their services. All foreign exchange regulation transactions are handled by financial institutions; we have no Western-style brokers. The managers act as legal persons. Representatives of the banks or financial institution designated by the State Administration of Exchange Control form a committee which makes major decisions pertaining to market supervision and management.

(4) The limits of administrative interventions. The principle behind foreign exchange regulation is not to restrict the source of foreign exchange, not to limit the amount of funds, and not to set price limits. The supply and demand of foreign exchange are to be the free choice of both sides without administrative interventions. This will not cause a sudden surge in exchange rate because the exchange rate is constrained by what the foreign exchange purchasing units can afford to pay. To stabilize regulation price, we can set up a foreign exchange standard fund to regulate the amount of fluctuation in the exchange rate. By tightening and easing the examination and approval of the use of foreign exchange, we can also control the demand and intervene directly in the market. Once conditions ripen, we should set up and

perfect a unified market. This means we must accomplish the following: (1) Units or individuals need not sell their foreign exchange to the state, nor should the state provide any unit or individual with foreign exchange. (2) The foreign exchange market should be completely decontrolled. Any unit or individual, when approved by the State Administration of Exchange Control, should be able to buy and sell foreign exchange in the market. (3) The exchange rate is to be determined by supply and demand in the foreign exchange market and put under the state's planned management. Of course we will not be able to achieve these three points overnight. When there is the need and the possibility, we should gradually expand the range of those allowed to participate in the regulation transactions and expand the scope of foreign exchange regulation and eventually set up a bona fide foreign exchange market under planned control.

In short, we must reform the RMB exchange rate. The planned flexible exchange rate is by all means a good choice. It meets the needs of the current conditions. But this is a complicated issue with broad ramifications and should be studied carefully and proven thoroughly. Looking at the experiences of some countries, if the RMB exchange rate can play a limited role in regulating the export trade during the Eighth Five-Year Plan period and play a comprehensive role in regulating the balance of payments during the Ninth Five-Year Plan period, after the Ninth Five-Year Plan, China will have built a strong economic foundation, achieved balance of payments, and will have ample foreign exchange reserve, and RMB will be freely convertible, albeit on a limited scale. Then we will be able to say that we have achieved the magnificent goal of exchange rate reform. A currency that is freely convertible will let the exchange rate reflect the market situation even better and promote foreign trade, strengthen global economic ties, boost the status of RMB among the world's currencies, and in turn will speed up China's economic development.

Article Says EC Antidumping Measures Are Discriminatory

91CED36 "A Beijing JINGJI RIBAO in Chinese 15 17 Jan 91"

[Article by Bai Fan (4101 1581): "On the European Economic Community's Antidumping Measures", Part One is entitled "One of Trade Protectionism's Magic Weapons" and Part Two is entitled "Several Noteworthy Clauses"]

[15 Jan 91 p 4]

[Text] In 1992, the European Community's [EC] unified market, marked by the "four big circulation" of commodities, labor and services, personnel, and funds, will come into being. With increased economic infiltration and closer internal association among the member nations, its geopolitical and economic interests will come even closer to being unanimous. As its foreign economic expansion and absorption capabilities are further

enhanced, this regional economic bloc's exclusionary tendency also becomes more evident. Among the many trade protectionist measures the EC has adopted, the most often-used and the toughest are their antidumping measures. Thus, we must look closely into the EC's antidumping regulation, review our experiences, and come up with the proper countermeasures.

1. The EC Antidumping Regulation

The EC's law against dumping is based on "Regulation 2423/88 issued on 11 July 1988 by the European Economic Community Council of Ministers on Boycotting Products Dumped by and Subsidized Imports from Non-EC Member Nations" as published in the EUROPEAN COMMUNITY GAZETTE on 2 August 1988. That regulation contains 19 articles which are applicable to all products from countries and regions outside of the EC. In other words, any non-EC product entering into one or more of the EC member markets or circulating freely within the EC may be accused dumping.

The charge of dumping is a legal action. A complete antidumping case often involves five steps: the charges, the preliminary hearing, the filing of a case for investigation, the preliminary adjudication, and the final ruling. The whole process takes about 18 months.

1. The charges: Article 5 of the "Regulation" stipulates that any natural or legal person or association that is not a legal entity in the EC has the right in the capacity as a producer to bring charges in the form of a written complaint if he thinks a cut-rate product or a subsidized import has caused damage or threatens to cause damage to him. The letter of complaint must provide sufficient proof and may be submitted directly to the EC Commission or may be delivered via the plaintiff's country of residence. If the plaintiff drops the lawsuit at this point, the case will be dismissed.

2. Preliminary hearing: The EC has set up a Antidumping Advisory Committee. It is a consultative organ and is made up of representatives from the 12 member nations and delegates from the EC Commission and is chaired by a delegate from the EC Commission. The Advisory Committee's consultations and discussions consist mainly of the following: (1) To determine whether dumping and subsidies in fact exist and to determine the method by which the extent of dumping and the amount of subsidy should be assessed; (2) to determine whether there has been damage done and the extent of the damage; (3) to assess the internal link between the dumped product or subsidized import and the damages; (4) to formulate and carry out measures to avoid or eliminate the damages done by dumping.

The Antidumping Advisory Committee in fact is a decision-making organ. It plays a crucial role in the filing of antidumping cases and in the handling of each case.

Based on the Advisory Committee's preliminary hearing, the EC Commission then makes the final decision as to whether it will file a case and conduct an investigation.

3. Filing a case for investigation: If the EC Commission decides that there is sufficient grounds for a lawsuit and agrees to file a case and start an investigation, it will issue a notice of antidumping suit in the EC GAZETTE. The date of the "Notice" will be the official filing date of the case, and an investigation will commence on the next day.

Once a case has been filed and investigation has begun, the defendant (including all export enterprises named and unnamed in the letter of complaint) should do the following within a specified period of time:

(1) It should complete and return the two questionnaires, one is confidential and the other is not, sent by the Antidumping Bureau of the EC Commission's Foreign Relations Department, both must be returned, or they will become void. (2) It should respond in writing to the filing of the case by the EC Commission and to the dumping and damage charges; it should try to refute the charges point by point. (3) It should cite counter-motions brought by analogous countries and state its case in writing and try to convince the EC Commission's Foreign Relations Department. (4) It should submit a request in writing for a hearing. The date of the testimonial hearing will be set by the EC, and the hearing will be held in Brussels.

4. The preliminary adjudication: If it is decided that dumping exists and that there is sufficient evidence to show that damage has been done, the EC Commission will, based on the Advisory Committee's suggestion, impose a provisional antidumping tax on the product in question. Such tax is generally valid for a period of four months and may be extended for another two months, the total duration should not exceed six months.

5. The final ruling: One month before the provisional antidumping tax expires, the EC Commission will submit a proposal to the EC Council which will make its final ruling by a valid majority vote based on the proposal, and if the final ruling is to impose a antidumping tax, such tax will be in effect for a period of five years.

In addition, there can be a case review, that is, one year after the final ruling has been handed out on an antidumping case, an export enterprise, a member nation of the EC, an importer, or any industrial enterprise has the right to ask the EC Commission to review the case and reexamine the conclusion reached in the final ruling.

If an EC industrial enterprise has sufficient evidence to show that when the sanction imposed by the final ruling expires, the EC will again suffer damages or the threat of damages, and if the request for review is accepted, the EC Commission's intention to review the case and a notice of case review will be published in the EC

GAZETTE. During the review period, the final adjudication which should have expired will remain in effect.

[17 Jan 91 p 4]

[Text] Several clauses in the EC antidumping regulation are of special interest to us. Specifically:

1. Normal Value and Analogous Country

Whether a product is being dumped and the extent of the unfairness are determined by whether its export price is lower than the normal value of similar products. Thus, when the EC Commission conducts its antidumping investigation, it will first try to assess the normal value of the product. The general idea of "normal value" as defined in the "Regulation" is fairly simple: "It is the price actually paid or should be paid for similar products a country of export or country of origin puts into the market through normal trade channels." But, according to the EC, China is "a nonmarket economy" country, its foreign trade is monopolized by the state, its export prices are distorted, its currency is not convertible, and therefore its prices do not reflect its production cost, and there is no reliable comparison between the product's normal value and its export price; thus, it is necessary to use the normal value of an analogous product from a country with a market economy as substitute. The country chosen is called an analogous country. This is a very harsh condition and is clearly discriminatory.

In actual practice, the EC Commission has three choices: (a) If the normal value of an analogous product from an analogous country is deemed reliable, it will be accepted as a substitute. (b) If the normal value of the analogous product from an analogous country is lower than the production cost, it will be deemed unreliable, and under the circumstances, the EC Commission will come up with a computed value (which includes production cost and sales, R&D, and financial expenses and other usual administrative expenses plus a reasonable profit) as substitute for the normal value. (c) The normal value of a similar product within the EC.

Normally, the basic principle behind the EC Commission's choice of analogous country is:

(a) The products must be similar, especially, the product quality must be similar. (b) The market must be competitive. In particular, there must be a certain amount of internal competition in the analogous country, and this kind of competition should be sufficient to guarantee a proper ratio between price and production cost. In addition, there should not be any price control in the analogous country. (c) The manufacturing process and structure should be comparable. In particular, the scale of production and the production process of the analogous product in the analogous country should be similar. (d) The level of industrial development should be comparable.

What is worth noting is that the plaintiff and the defendant only have the right to suggest the choice of the

analogous country while the EC Commission has the right to make the final choice. However, the Chinese side should not give up the right to make a suggestion.

2. The Choice of Export Price

"Export price" refers to the net price actually paid or should be paid for a product exported to the EC after deducting all taxes, discounts, and directly-related rebates, transportation cost, insurance, reasonable profit, and other direct sales expenses. In other words, it is the product's ex-factory price in the exporting country as calculated from its export list price, and this price is used as a basis for comparison with the normal value to determine if there has been dumping, and if so, by how much. In choosing the export price, the EC Commission usually chooses the export price of an analogous product from an analogous country. If an export price provided by "a nonmarket economy" country is deemed reliable and accurate, it may be adopted.

What is worth noting is that the EC determines the export price based on the average price during a given period, and therefore it is important that we choose the price lists and invoices and other information we provide for that period very carefully. The higher the export price, the less chance of our being accused of dumping.

3. The Antidumping Tax

Article 2 of the "Regulation" stipulates that if the export price of a certain product is lower than the normal value of a similar product, it will be regarded as dumping, and the price difference between the two will gauge the extent of dumping. But only, if upon an investigation, all of the following three conditions are met can the EC impose an antidumping tax or accept the exporter's promise of raising the price: (a) dumping does indeed exist, (b) dumping indeed has caused or threatens to cause serious damage to EC's industries, and, (c) it is in the EC's interest to do so.

ECONOMIC ZONES

Shenzhen Economic Zone Sets Up Bonded Market

*OW 1803104991 Beijing XINHUA in English
1021 GMT 18 Mar 91*

[Text] Beijing, March 18 (XINHUA)—The Shenzhen Special Economic Zone has received state approval to set up a bonded market for production materials, according to today's overseas edition of PEOPLE'S DAILY.

The bonded market will consist of eight small special product supply markets which will handle metals, building materials, machinery, electronic devices, chemicals, medicine, agricultural materials and packing materials. The bonded market will go into operation this month.

Governor of Hainan Outlines Reform Plans

*OW 1903152791 Beijing XINHUA in English
1509 GMT 19 Mar 91*

[Text] Haikou, March 19 (XINHUA)—Liu Jianfeng, the governor of south China's Hainan Province, yesterday revealed the reform measures that will be undertaken by the province this year to create a better environment for overseas investment and promote the development of its export-oriented economy.

Hainan plans to reform its grain pricing system in the first six months of this year, the governor said at a working conference on the province's economic and political restructuring. After the reform is implemented, grain will be purchased at negotiated prices, he noted.

Other reform measures outlined by the governor include:

- The introduction of pensions and medical, unemployment and on-duty accident insurance policies in the first half of this year.
- The establishment of stock markets for developing the province's financial market.
- The establishment and enhancement of standard and organized markets for essential production factors, such as materials, technology, labor and real estate.
- The enhancement of the enterprise contract responsibility system and the stepping up of pilot share system projects.

LABOR

Article Optimistic About Employment in Tertiary Industry

91P30108

[Editorial Report] An article in the 31 January Beijing JINGJI RIBAO in Chinese urged the authorities to investigate the great employment potential of tertiary industries. Labor surplus has always been a problem in China, and was aggravated by the economic rectification and retrenchment policies. An irrational employment structure has also contributed to the problem. According to statistics, in 1988, the breakdown of employment in primary, secondary and tertiary industries was 59.5 percent, 22.6 percent, and 17.9 percent, respectively. The 17.9 percent in tertiary industries compares unfavorably with the 60 percent and 40 percent in developed and moderately developed countries.

The article states that the slow development of tertiary industries caused by backward facilities and lack of manpower has hindered social and economic development. The countryside is in need of services during all phases of the production cycle. In industrial enterprises, improvements are needed in services for goods and materials supply, transportation, and transition of funds. There is also a lack of services for the general public's

material, cultural, and daily needs. Therefore, great efforts must be made to develop tertiary industries, furthermore, by doing so, immense job potential can be created.

According to the article, in the next few years the state-run industries will emphasize structural readjustment and technology improvement rather than expansion, while rural industries always have more helping hands than they need. This leaves tertiary industries the only trade that can offer a large quantity of jobs.

The article made the following suggestions:

- Circulation is the key to developing tertiary industries and employment. It is important to improve services in state-run stores, supply and marketing cooperatives, food supply and restaurants. Better circulation will create more jobs. It is estimated that every increase of 100 million yuan in retail sales by state-run enterprises creates 2,000 new jobs.
- In line with the authorities' guide of "three-way employment," besides providing government jobs, the state should mobilize collective and private enterprises to hire more people.
- Develop and improve the rural socialized service system, including the export service system, town and township services to their residents, agriculture-commercial cooperation services, and various services for farmers.
- Implement price and labor reforms, increase workers' compensation in service industries, and encourage collectives and individual entrepreneurs to develop retail businesses and long-distance transport services.
- Establish and extend preferential policies to create a more favorable environment for the development of tertiary industries.

Task Force Studies Guangdong Migrant Workers Problem

HK0503020091 Hong Kong HONGKONG STANDARD in English 5 Mar 91 p 8

[By S.I. Law]

[Text] Guangdong authorities will put the problem of migrant workers to next month's fourth session of the National People's Congress [NPC] for discussion, official sources said yesterday.

This is included in a four-point measure proposed yesterday by the task force set up to solve the problem of migrant workers who flooded into Guangzhou to seek work after the Chinese New Year.

The task force, headed by Guangzhou Major Ye Xuanping, also called for all inland provinces to step up measures to stop migrant workers from moving into Guangdong.

It also urged for better communications and cooperation between provinces for an effective solution.

As a last measure to alleviate the problem, the proposal said labours now congesting the Guangzhou Railway Station—estimated at over 200,000 currently—should be removed.

Measures to remove the workers had included loading them in totally unequipped rail carriages to neighbouring counties like Shunde to try their luck.

It was said that Guangzhou authorities had successfully persuaded more than 20,000 workers to go to other counties since the removal measure began about three weeks ago.

It was also said that one died and three were injured because of the poor facilities of the carriages used to transport the workers. This led the task force to ban the use of these carriages.

All Guangdong officials contacted yesterday refused to comment the matter.

However, a spokesman from the Army Hospital in Guangzhou confirmed that a migrant worker died 18 days ago in the hospital.

"Because the corpse has been left unclaimed for such a long time, there is a report on the dead man to alert the relevant department for suitable action," the spokesman said.

"I happen to have read the report, he was a man from the northeast."

However, there were no details in the report of how the man died.

The spokesman also said that the casualty room of the hospital, the nearest hospital to the Guangzhou Station, had been kept busy by the migrant workers in recent weeks.

"Sometimes they come to ask for food, sometimes they are injured in fights among themselves. We will give them relevant treatment before sending them away," he said.

POPULATION

Population Growth Among Religious Minorities

91CE02214 Beijing RENKOU YANJIU
[POPULATION RESEARCH] in Chinese No 6
29 Nov 90 pp 16-21

[Article by Zhang Tianlu (1728 1131 6424) "Population Growth, Family Planning in Religious Minority Groups"]

[Text] As a social ideology, religion is part of the superstructure. Every religion has its own doctrines, tenets, theological theory, regulations, taboos, commandments

and sacrificial rites and practices. Not only does religion have a profound impact on the development of human society and the politics and policies of a nation, but it also influences the size and caliber of a population.

According to the 1980 edition of *Encyclopedia Britannica*, there were 2.578 billion religious followers in the world, 60.12 percent of the world's total population that year.

The Chinese Government follows a policy of freedom of religion and belief. The constitution explicitly provides for a "citizen's right to religious freedom." Most minority nationalities in China practice a religion, but since religious belief was not included as an item in regular counts of registered households and successive censuses, accurate statistics on the number of religious followers and workers of the various religions are hard to come by. Nevertheless, some approximate figures do exist.

1. Islam: How many Muslims were there in old China? What records there are give widely conflicting numbers and cannot serve as a basis. After liberation, the nation has conducted three censuses. In 1953, the nation's Muslim population was 8,006,200, 1.37 percent of China's total population. In 1964, it was 9,244,600 and in 1982, 14,613,300, 1.34 and 1.45 percent, respectively, of the nation's population for the year in question. China's Muslim population has been growing fairly rapidly, increasing 1.32 percent annually on the average between 1953 and 1964 and 2.58 percent between 1964 and 1982. While there are many reasons behind the rapid growth rate, it has much to do with certain tenets in the Islam faith.

1) Marriage in Islam. According to the Koran, a woman comes of age at nine, a man at 12. After that they can formally marry. According to the 1982 census, among 47 100-year-old people of the Uygur nationality in Tulufan County and Shaya County in Xinjiang, 10 were married between 12 and 14 years of age, and 10 were married when they were 15 or 16. In 1984, married women of the Uygur nationality in Moyu County in Xinjiang accounted for the following percentages of all women of their age groups: 14 years old and younger, 65.5 percent; between 15 and 19, 79.3 percent.¹ Women of the Uygur nationality in Moyu County and Urumqi County in Xinjiang averaged 14.4 years of age when they first married. By 1984, the figure had risen to 17.

The Islam creed also requires marriage within the faith. According to the Koran, "Allah selects a marriage partner for you from among your own kind so that with your spouse you can continue your family line. This is the will of Allah." Marriage within the faith increases the chances of "inbreeding," or, as they say, "relatives marrying one another to bring the relationship closer." A 1985 survey turned up the following inbreeding rates for five nationalities in three areas—Kashi, Atushi, and Akesu—in southern Xinjiang: Uygur, 17.69 percent; Tajik, 42.79 percent; Uzbek, 23.27 percent; Kirgiz,

45.16 percent; and Hui, 17.39 percent. Not only does inbreeding lead to a higher incidence of genetic disease, but a greater proportion of the children whose parents are blood relatives die before they are 20 years of age than is the case among the offspring of random marriages. (See Table 1)

Table 1: Mortality Rates of Children Under 20 Years Old Whose Parents Were Blood Relatives or Unrelated Partners for Five Nationalities in Three Areas in Southern Xinjiang in 1985 (%)

Nationality	A. Marriage Between Blood Relatives	B. Marriage Between Unrelated Partners	(A-B)/B
Uygur	16.35	10.97	+49.04
Tajik	18.87	11.30	+66.99
Uzbek	19.84	10.42	+90.40
Kirgiz	17.10	11.00	+55.45
Hui	15.34	9.37	+63.71
Total	17.28	10.94	+57.95

Source: "China's Minority Nationalities," 1987, No 1

2) Reproduction in Islam. Islam encourages its believers to have many children. Mohammed said in the "Sacred Edict," "Marry and multiply. You will compete with other races in the future." "Children are the gift of god. If you have such and such a number of children, then that is how many children you should have." Childbirth is supposedly predetermined by Allah, not something within one's control. Property and offspring embellish this life.

Islam also prohibits infanticide or the abuse of newborn infants. It says, for instance, "Do not ill-treat or kill a male or female infant because of poverty. I provide for you and for them. It is indeed sinful to kill them." "Do not oppress an orphan." "Do not detest daughters. I am the father of daughters." This ensures that the male and female infants of Muslims are spared abandonment or drowning.

Early marriage among Muslims also leads to early childbirth. In 1986, for instance, the birthrate among women between 15 and 19 years of age were 40.2 per thousand and 70.8 per thousand in the Hui and Uygur nationalities, respectively. Among Uygur women in that age group in Xinjiang who gave birth, 72.98 percent had their first child, 22.32 percent, their second child, 4.11 percent, their third child, and 0.59 percent, their fourth child.²

Both now and in the past, both in China and elsewhere, Muslim women have high birth rates. According to China's 1982 census, Xinjiang women above 100 years old had a birth rate of 6.7, of which 43.94 percent had 5 to 10 children and 19.19 percent had between 11 and 24 children.

The reproductive wishes of Muslim women, both Chinese and foreign, all manifest themselves as a desire for many children. The number of children desired by Muslim women in Soviet Central Asia fluctuates between 4.89 and 6.28. Their birth rates are correspondingly high.

3) Family planning in Muslim areas. Muslim nations and areas take different attitudes toward family planning. One group encourages reproduction but most Muslim nations have adopted a policy to control population growth. Yet others take a position somewhere in between.

In China, family planning in Muslim areas not only is determined by the demand of the masses for family planning, but is also based on the principle of autonomy for minority nationalities in conjunction with local conditions. The result is a varied menu of family planning policies and measures, some adopted earlier than others. For the Hui nationality Autonomous Region in Ningxia, for example, family planning has become a regular practice since 1979. In 1982 the policy of family planning for minority nationalities was further improved. After effective work, the total birth rates of child-bearing Hui women in the region have all dropped by varying degrees. This shows that family planning is feasible and effective in Muslim areas. The key is to do it right. To begin with, we must understand what the masses think about family planning as well as their concerns. Our research shows that the masses had three concerns. One, they worried about violating Allah's predetermination and losing their faith (Imani). Two, they worried that it would be sinful to expose their bodies during sterilization procedures. Three, they were concerned that if they wore the intrauterine device, they would not be allowed to enter the kingdom of heaven after death. Second, we must conduct publicity and educational campaigns in a focused way, making a special effort to secure the cooperation of the imams and asking them to work hard on behalf of the prosperity and development of their own nationality. Imams in Tongxin County and in the Islam Association of Xinjiang conscientiously studied and translated passages relating to birth control in the "Sacred Edict" and other classic religious texts. We also printed 7,000 copies of family planning publicity flyers. Imams were asked to publicize family planning among the masses on Djumah and at other times. The publicity literature includes passages like these: "Women are allowed to block the opening of their uteruses." (See "Tanbihai.") "Abortion may be allowed if there is a good reason (such as when a mother gets pregnant again when she is still nursing but cannot afford to hire a wet nurse). Abortion may be allowed to protect the baby from harm." (See "Shami," Book 5) "Women may block the opening of the uterus. They may also have an abortion during the fourth or fifth month of pregnancy." ("Shami," Book 5) Furthermore, many imams set a personal example by being the first to practice family planning and undergo sterilization. Because of their

leadership, 12,000 people in the county had their fallopian tubes tied, 66.7 percent of those who had had three children and should be so sterilized. Of these 85 percent were Hui women.

The Uyghur Nationality Autonomous Region in Xinjiang has the highest concentration of Muslims in China and accounted for 52.18 percent of China's entire Muslim population in 1982. With family planning among the Han nationality setting a good example, more and more Muslims have willingly accepted contraceptive and birth control measures. By 1983, 20 percent of the Muslim cadres and ordinary people in the region had adopted a variety of contraceptive devices. In Urumqi, 66 percent of married women in their child-bearing years were using some kind of birth control method. As a result, the overall birth rate of Hui women dropped from 7.33 in 1964 to 2.40 in 1983. Among Uyghur women, the birth rate fell from 5.32 to 2.56. In response to the demand of minority nationalities, both cadres and masses, and in order to further improve the caliber of the Muslim nationality and accelerate its invigoration and prosperity, the Autonomous Regional People's Government promulgated the "Provisional Family Planning Regulations for Minority Nationalities in the Xinjiang Uyghur Autonomous Region." The results of implementation have been favorable.

From the facts above, we can see that although Islam has traditionally spurred population growth, it may yet prove to be a big help for family planning work among Muslims in the future.

2. Buddhism: According to basic Buddhist doctrine, man is plagued by worry and sadness because he has desires: carnal desire, the desire for immortality, and the desire for wealth. These three worldly desires are the root of all sin. Only by totally overcoming one's worldly desires, going beyond the cycle of life and death, not marrying, not having children, and not seeking longevity, can we be liberated from human society and transcend this world. This fatalist viewpoint has hampered the development of productive forces and checked population growth.

These are the branches of Buddhism popular among China's minority nationalities:

1) Tibetan Buddhism, commonly known as Lamaism. It is the product of competition and integration between Xianmiliangxi Buddhism, which reached China from India in the 8th Century, Dacheng Buddhism, which spread to Tibet from Han areas, and primitive Ben religion (Black religion) in Tibet. Its major forms are the Gelu sect (Yellow Sect), Ningxia sect (Red Sect), Geju sect (White Sect), and Shajia sect (mixed sect). Traditionally the Gelu sect has the most temples and lamas, accounts for the largest share of followers in Tibetan Buddhism, and is the most influential. Tibetan Buddhism has extensive following among the Tibetan nationality, Mongolian nationality, Tu nationality, Yugur nationality, Monba nationality, and part of the Naxi nationality.

How many Tibetan Buddhists were there in ancient China? No data exist. Li Youyi [2621 2589 5030] has given this estimate: "During the heyday of the Tibetan regime in ancient China, the Tibetan population fluctuated between 5 to 6 million people."¹ Huang Fensheng [7806 1164 3932] estimates, "The Tibetan population was somewhere between 2 to 3 million people."² The Mongolian nationality in the early Yuan Dynasty consisted of 3 million people. Add the 1 million in the four Khan fiefdoms and you have a total of 4 million, which, however, had dropped to 1 million after the Yuan and Ming dynasties.

There have been three censuses after New China was founded. According to the 1953 census, the population of these nationalities was 4,295,700, 0.74 percent of the nation's total population. In the 1984 census, it had risen to 4,549,800, 0.71 percent of the nation's total population, and in 1982, 7,430,700, 0.71 percent and 0.74 percent, respectively, of the nation's total population.

The growth of the Tibetan Buddhist population was slow to begin with but has increased rapidly, expanding 0.52 percent annually on the average between 1953 and 1964 and 2.76 percent annually between 1964 and 1982, 430 percent faster than before.

Within Tibetan Buddhism, the Gelu sect "prohibits monks from promiscuity." In other words, they are not allowed to marry and raise a family. Nor are they allowed to take part in material production activities.

Clearly such tenets militate against both economic development and population growth. In areas where lamas make up a significant portion of the Tibetan Buddhist population, these prohibitions have a particularly marked effect. Statistically, there were 5,284 temples and 453,800 lamas in Tibet in 1737, 25 percent or so of Tibet's population at the time. In 1958, on the eve of democratic reform, there were still as many as 2,711 monasteries and 114,000 lamas in the entire Tibet, 10 percent of Tibet's population that year. During the several centuries that spanned the Ming and Qing dynasties, the number of lamas in Inner Mongolia increased steadily to make up one third of the Mongolian population. By the 1930's and 1940's, Mongolian lamas constituted 44 and 42 percent, respectively, of the Mongolian male population of Wulanchabu League and Yikezhao League. In 1947, lamas made up 41.5 percent of the male Mongolian population of Siziwang Banner in Wulanchabu League. Clearly this has created a serious imbalance between the number of women in their child-bearing years and men in the corresponding age group. There was an imbalance between sexes in some age groups to begin with. Had there been some kind of overlapping between the age groups, the imbalance could have been moderated. However, since a considerable number of men in every age group has become lamas and therefore unavailable as marriage partners, the ratio between women and non-lama men has been reduced to about half in most age groups, resulting in a severe artificial "surplus" of women of marriageable age (Table 2).

Table 2: Sex Breakdown By Age Group in Four Banners in Inner Mongolia in 1974

Age Group	Male			Female	Sex Ratio (Female 100)	
	Total Male	Lamas	Non-Lama		Male/Female	Non-Lama/Female
16-20	191	93	98	164	116	6
21-25	166	68	98	202	82	49
26-30	197	67	130	162	122	8
31-35	179	62	117	239	75	49
36-40	201	95	106	213	94	8
41-45	237	135	102	226	106	49
46-50	243	147	96	207	117	40

Source: *Population of China's Minority Nationalities*, Liaoning Renmin Chubanshe, 1987.

Whether now or in the past, whether in absolute terms or relative to the number of marriageable women, the Tibetan nationality in China has been on the small side in terms of population. Even under monogamy, there are already more eligible women than men. If we take into account the fact that some of the men are lamas and factor in polygamy (one woman marrying several men) as well, then the "glut" of women would be correspondingly higher. A study was done on Jianglong Village in Caolongwa Township in the Si District of Tongren County, Qinghai Province, which had a total 126 households consisting of 449 people in 1957. Among them were 172 men and 277 women, so the natural sex ratio was 100 women to 62 men. Of these 172 men, 126 were

lamas, thereby reducing the number of eligible men to 62. Thus the ratio between eligible women to eligible men was further lowered to 100:17. 83 percent of the women were "redundant" as far as marriage is concerned.³ Or take the example of Langjia Tribe in Tongren County, Qinghai Province. In 1982, there were altogether 1,153 people in the tribe, including 504 men and 649 women, yielding a natural women to men ratio of 100:77.7. Since 244 of the men were lamas, in other words, since 260 men were non-lama, the ratio between eligible women and eligible men fell to 100:41. That is, 60 percent of the women were "redundant" and therefore unable to carry out normal marital and reproductive activities.

This is precisely why a substantial portion of Tibetan women, including those in their child-bearing years as

well as those past child-bearing years, are single. (See Table 3)

Table 3: Ratio of Single Women in Some Tibetan-Inhabited Areas in 1982

Area	Age Groups						
	15-19	20-24	25-29	30-39	40-49	50-59	60 and over
Zaduo County, Qinghai	62.29	53.95	27.52	17.99	20.24	17.52	17.58
Nanguan Co., Qinghai	94.66	61.02	34.75	25.12	24.62	24.56	24.90
Dege Co., Sichuan	95.45	65.79	39.68	25.50	21.45	21.86	22.65
Shiqu Co., Sichuan	92.25	53.94	29.11	18.88	17.39	19.60	23.49
Maqu Co., Gansu	77.58	31.27	12.44	11.06	19.35	22.17	22.64

Source: 1982 Census

Whether at home or abroad, it is rare for a high 20 percent of the women of an area to be single for life. Within the 25-49 age group, singles made up 11 to 39 percent of the women, which is also rare. Among women in the 15 to 19 age group, a whopping 62 to 95 percent of the single were single. While this had something to do

with the late onset of puberty among females due to the climate in the Qinghai-Tibetan Plateau, it also resulted from the prevalence of Lamaism and polygamy (one woman marrying several men). Their marital state has had a direct impact on the reproductive behavior and birth rates of Tibetan women. (See Table 4)

Table 4: Reproductive Status of Women in Some Tibetan-Inhabited Areas in 1981

Area	Total birth rate	Birth rates by age group					Childless women (%)		
		15-49	40-44	45-49	50-54	55-59	60-64	40-49	50-59
Lhasa, Tibet	—	4.59		4.20		3.67	—	—	—
Naidong, Tibet	—	4.51		4.86		3.58	—	—	—
Nanguan Co., Qinghai	6.38	5.21	4.79	4.04	3.47	3.51	7.5	16.5	20.4
Tongren Co., Qinghai	5.07	4.88	4.51	3.74	3.16	3.23	12.2	25.7	27.6
Shiqu Co., Sichuan	6.24	4.82	4.65	4.07	3.48	3.40	9.2	14.1	20.4
Lugu Co., Gansu	5.77	4.85	4.31	3.89	3.59	3.69	12.5	19.8	22.0

Source: 1982 Census

The proportions of women who have never borne children are shockingly high. But the percentages drop as the age groups get younger. Obviously, the various preventive measures adopted after liberation have laid the groundwork for a steady climb in birth rates among Tibetan women. Birth rates increase as the age groups get younger, rising from 3.23-3.69 to 4.82-5.21, clearly the obverse of the decline in proportion of women who have never borne children. The total birth rates of Tibetan and Mongolian women in their child-bearing years nationwide were 4.43 and 2.58, respectively, in 1986, down from 5.38 and 3.31 in 1981.⁶

Tibetan Buddhism has played a part in shaping the reproduction notions of its followers. According to a 1985 survey on the reproductive wishes of the Tibetan nationality, which was conducted by the Family Planning Committee of the Aba Tibetan Nationality Autonomous Prefecture in Sichuan (see Table 5), a substantial portion of women in their child-bearing years wanted more than three children but they were still a small portion compared to Muslim women. This is a reflection of such Buddhist teaching as the idea that "man has eight sufferings, foremost being birth and childbirth. Having children is a drag. Giving birth and raising children is a

life-long debt." "Whether or not you have children and how many is predetermined in one's previous life." "Tibetan people have given names only, no surnames. So their sense of family and the clan is very weak. They do not think in terms of passing on the family name and continuing the family line. Having no children, one can give all one's worldly possessions to the monastery to accumulate good deeds to one's credit in the next life."

Table 5: Reproductive Aspirations of Tibetan Women in Aba Prefecture, Sichuan, in 1985 (%)

Occupation	1 Child	2 Children	3 or More	No Children
Total	4.52	38.16	57.14	0.18
Agricultural	1.75	18.49	79.45	0.31
Nonagricultural	6.68	53.59	39.65	0.08

Source: RENKOU ZAZHI 1985 No 3

2) Dai Buddhism. The Dai nationality in Yunnan Province widely practices Nanchuan Shangzuobu Buddhism, also known as Xiaocheng Buddhism. Other nationalities who follow this religion are the Blang nationality, De'ang nationality, some members of the Achang nationality, Va nationality, and a minority of the Yi nationality. The combined population of the Dai, Blang, and De'ang nationalities was 581,700 in 1964 and 978,400 in 1982, 0.08 percent and 0.1 percent, respectively, of China's total population that year. The average annual growth rate was 2.93 percent in the 18-year period.

Before liberation, almost every village and hamlet in the Xishuangbanna area had a Buddhist monastery. From the age of seven or eight, a Dai male is usually required to spend some time away from his family as a monk in a monastery. After he comes of age, in most cases he will return to secular life, get married, and start a family. In a minority of cases, however, the male remains in the monastery as a monk for the rest of his life. In Dai society, becoming a monk is considered a major event in a person's life, like marriage. Between 1981, when religious life was restored, and 1985, the number of monasteries increased from 145 to 415 in Xishuangbanna Prefecture alone, with 5,532 monks, up from 655 (excluding those who had resumed secular life).⁷

The marriage, family, childbirth, and infant mortality rates of the Dai nationality are all influenced by a variety of factors, including social and economic conditions, religion, and customs, and display the following characteristics:

First, men and women have equal autonomy when it comes to choosing a partner in marriage, divorce, and remarriage. As a rule, young Dai men and women begin dating and get married when they are 15 or 16 years old. If a woman is still single after 20, she is called "shaotao" (old maid) and is looked down upon socially. For this reason, women are usually quite young at first marriage,

18.6 years old between 1964 and 1969, 18.9 in the 1970's, and 19.6 between 1980 and 1985. If we look at the marital status of women between 15 and 64 years of age, a considerable portion were "remarried" or "widowed." The breakdown was: never married, 23.9 percent; first married, 60.5 percent; remarried, 11.4 percent; divorced, 2.3 percent; and widowed, 1.9 percent.

Second, in terms of family formation, there are three variations. A couple may stay with the husband's family, with the wife's family or set up their own separate household. Turning to domestic economics, incomes derived from joint husband-wife labor pay for collective household consumption, while incomes from the husband's or wife's sideline production become the individual's "private savings." Since the Dai people have given names only but no family names, have no family tree records, and have a weak sense of family, they do not see having sons as a source of good fortune or think in terms of passing on the family line. This may be the key explanation for the reluctance among women in recent years to have more children and for the substantial drop in birthrate.

Third, the overall birthrate has dropped substantially. Between 1964 and 1970, the overall birthrate of rural Dai women in Yunnan remained above 7.0 consistently. However, it suddenly dropped to 4.6 in 1970 and 3.1 in 1985. Nowadays women are usually reluctant to have many children, normally asking to have their tubes tied after just two births (even one in some cases). Thus, the birth control rate was a high 62.3 percent even back in 1985.

Fourth, the infant mortality rate among the Dai nationality was 88.31 per thousand (1985), the highest among all nationalities in Yunnan. This may be related to the practice of washing the newborn in cold water and the possible greater incidence of tetanus because of humans and livestock sharing living quarters. The marital and childbirth conditions of the Blang nationality in Menghai County, Yunnan Province, are more or less the same as those of Dai women in the same province.

First, men and women enjoy equal autonomy and decision-making power when it comes to marriage. By the time a person turns 15, a ceremony is held to mark his coming of age and afterward he can fall in love and marry. In 1986, people got married for the first time at the age of 19.7 on the average, up from 18.7 percent in 1945. Among women 15 to 69 years of age, the divorce and remarriage rate was 7.6 percent, slightly lower than the Dai nationality.

Second, as far as family formation and the distribution of household incomes are concerned, the Blang nationality is basically similar to the Dai nationality. However, their views on reproduction are more deeply influenced by religion. It is commonly thought that how many children a woman bears is predetermined in life, something that is arranged by God. "Like the hen laying eggs when you are done with child-bearing, you will not have

any more children." Birth control violates divine wishes and is "rebellious."⁸ In the Blang mountains areas, therefore, the person who uses contraceptives or undergoes tubal ligation will not be allowed to enter a temple to worship Buddha or recite the scriptures and is doubly discriminated against. Consequently, the sterilization rate in 1986 was only 11.2 percent.

Third, the total birthrate is fairly high. It was 5.5 in 1970 and dropped to 4.5 in 1986.

3). Dacheng Buddhism. Dacheng Buddhism is most popular among the Bai nationality in Yunnan and also attracts some followers among small pockets of such nationalities as Lahu, Zhuang, Bouyei, Dong, She, Naxi, Yi, Qiang, Manchu, and Korean. Before liberation, a number of Buddhist temples were built in areas inhabited by the Bai nationality. Many Bai households also set up family halls for worshipping Guanyin. The population of the Bai nationality increased from 667,000 in 1953 to 707,000 in 1964 and 1,131,000 in 1982, with growth averaging 0.5 percent annually before 1953 and 1964 and 2.6 percent between 1964 and 1982.

On the average, Bai women in Yunnan were 21.6 years of age when they married for the first time in 1987, down from 22.3 in 1981. Although the total birth rate of women in their child-bearing years declined from 3.2 to 2.8, the birth rate of women in the 15-19 age group rose from 7 per thousand to 20.2 per thousand. On the other hand, the proportions of Bai women having their first child, second child, and third child have changed substantially. In 1981, the proportions were 28.86 percent, 26.54 percent, and 44.60 percent. By 1986, 37.88 percent were first born, 33.71 percent were second born, and 28.41 percent were third-born. The percentage of Bai women having multiple births is lower than the Bai, Han, Hui, Miao, and Zhuang nationalities.

In 1985, the infant mortality rate of the Bai nationality was 57.69 per thousand, higher than that of the Han nationality (53.62 per thousand) only, also the outcome of its more advanced culture compared to that of other minority nationalities.

In addition, some members of the Yi and Miao nationalities as well as a few other nationalities in Yunnan practice Christianity. Some members of the Naxi nationality follow the Dongba religion. Some Russians and some members of the Erwenke are followers of the Eastern Orthodox Church. Other nationalities, like Derung, Nu, Va, Jingpo, and Oroqen are still deeply influenced by primitive religion.

Based on the 1982 census, we can see that a variety of factors—social and economic conditions, the level of urbanization, traditional values, and religion—influence the cultural quality of a population. Religion is only one of several factors and as such cannot be considered the sole criterion in assessing the cultural quality of a population. Sometimes, however, it can play a decisive role

If we look at the literacy rates of the various religious populations, we would be hard pressed to conclude that religion plays a decisive role. Nevertheless, the female illiteracy rate is high or very high for all minority nationalities irrespective of their religion. Among nationalities with illiteracy rates exceeding 80 percent are such Muslim followers as the Dongxiang nationality (96.20 percent), Salar nationality (92.54 percent), and Bonan nationality (91.81 percent), such Tibetan Buddhist nationalities as the Tibetan nationality (86.78 percent), and such Dai Buddhist followers as the Blang nationality (84.02 percent) and De'ang nationality (83.80 percent).

Religion is a key explanation for the fact that illiteracy is much higher among women than among men.

To achieve the common prosperity of all nationalities, all religious populations above face the daunting task of improving the level of culture, science, and technology.

Footnotes

1. "Chinese Demographics," 1987 No 1.
2. "Xinjiang One Percent Sampling Population Survey, 1987," 1988, Zhongguo Tongji Chubanshe.
3. "Demographic Changes and Developments of China's Tibetan Nationality," in *Chinese Tibetan Studies*, 1988 No 2.
4. "National Demographics," 1989, Zhongguo Renkou Chubanshe.
5. "The Population of China's Minority Nationalities," 1989 No. 1.
6. The 1 percent sample survey in the 1982 census yields a figure of 2.77. The number of 5.38 was arrived at after taking into account the number of Tibetan women (4024) on whom no childbirth data exist.
7. "Chinese Population Science," 1989 No 5.
8. *Population Studies on Southwestern China*, 1989, Yunnan Renmin Chubanshe.

(Writer's work unit: Demographics Institute, Beijing Economics College)

TRANSPORTATION

China Eastern Airlines Establishes Shandong Branch

OW0603145291 Beijing XINHUA in English
1423 GMT 6 Mar 91

[Text] Jinan, March 6 (XINHUA)—The Shandong branch of China Eastern Airlines opened yesterday in Jinan, the capital of east China's Shandong Province.

China Eastern Airlines is one of China's six main airlines and is the second state appointed international carrier in the country.

The Shandong branch will provide passenger service, as well as cargo and mail transport, from Jinan to other cities in China and to Hong Kong. The branch will also provide services to industry, agriculture and forestry in north and east China.

Zhang Bingwei, the general director of the branch, said that the branch now has over 400 staff members, and a number of MD-82 and other types of aircraft.

Zhang said that the branch plans to open the Jinan to Hong Kong flight in the near future.

Airline Service Develops Rapidly

SK0703072891 Shijiazhuang Hebei Provincial Service in Mandarin 2300 GMT 15 Feb 91

[Summary] During the Seventh Five-Year Plan period, Hebei Province has achieved rapid development in civil aviation.

The province has invested 20 million yuan in the capital construction of airline service facilities during the period. The terminals in the cities of Shijiazhuang and Qinhuangdao have opened 11 new air routes during the period, connecting the 13 large and medium-sized cities of eastern, northern, northeastern, and northwestern China. The total length of these air routes reaches 7,920 km.

Construction of Jinan-Qingdao Expressway Begins

SK1803045691 Jinan Shandong Provincial Service in Mandarin 2300 GMT 17 Mar 91

[Text] The construction of the whole Jinan-Qingdao expressway, which will traverse the Shandong peninsula, began on 17 March. Leading comrades, including Vice Governor Zhang Ruifeng and Mayor of Qindao City Yu Zhengsheng, attended the foundation stone laying ceremony to mark the initiation of the construction of the Qingdao Section of the expressway.

The Jinan-Qingdao expressway will be 318 km long and is a state-grade key construction project. This project requires a total investment of 1.71 billion yuan and is an interchange type of expressway for motor vehicles only. It represents the greatest investment and is of the largest scale, longest mileage, and highest grade in our province's history of highway construction. This project was organized and will be built by adopting the method of inviting international tenders, and the construction work has been divided into eight sections and is being undertaken by the Beijing Urban Construction Engineering Company. This project will be completed by the end of 1994.

AGRICULTURE

Expansion of Wholesale Grain Markets Planned

HK2503043391 Beijing CHINA DAILY in English 25 Mar 91 p 1

[By staff reporter Xie Liangjun]

[Text] China is preparing to set up several new wholesale grain markets in the second half of this year.

They will follow the first five wholesale grain markets established since last October.

Ecobnomist Zhu Yuchen, deputy director of the administration office of National Cereals Wholesale Markets under the Ministry of Commerce, told CHINA DAILY that Hunan, Shandong and Sichuan provinces and Shanghai and Beijing are considering setting up such wholesale markets for grain and even for edible oil.

So far, five national and provincial-level wholesale markets for wheat, rice and corn have been established in the country, located in Zhengzhou, Henan; Jiujiang, Jiangxi; Wuhu, Anhui; Wuhan, Hubei and Changchun, Jilin.

"At present, these grain wholesale markets are operating better than we anticipated," Zhu said, taking China's first national wheat wholesale market as an example.

Since October, he said, 240,000 tons of wheat had been traded at the Zhengzhou market.

Zhu said that the trade is significant despite its modest volume. He added that the Zhengzhou Market is nurturing the market mechanism in China's wheat-trading business.

Wheat prices in Zhengzhou largely determine those in other parts of the country, thus playing a pivotal role in stabilizing wheat prices in China.

Chinese wheat traders increasingly consult the Zhengzhou market price when making deals.

Zhu stressed that China would open such wholesale markets in a planned way. But in the first half of this year, no new wholesale grain markets are scheduled to open, because the priority is "on running well the five established markets."

The introduction of wholesale grain markets is aimed at avoiding big fluctuations in market prices, as has happened over the years in China. The situation has led to many complaints from farmers.

Wholesale grain markets are expected to develop into futures markets, but Zhu said that the timetable for the transition is still uncertain. "It depends on how reform and the open policy are carried out in the coming years," he said.

Zhu, a 1987 graduate of Northeast China University of Finance and Economics, is one of China's pioneers in

research into wholesale and future markets. He did further research at the Chicago Board of Trade and the Chicago Mercantile Exchange between October 1989 and May 1990.

He urged that more efforts be made to keep these five wholesale grain markets operating normally.

Sugar Refining Industry Holds National Conference

OB 2403153291 Beijing XINHUA in English
1459 GMT 24 Mar 91

[Text] Nanning, March 24 (XINHUA)—China's sugar output is expected to reach 6.5 million tons in the 1990-91 sugar-making year, ranking fifth in the world.

The estimate was made at a conference held in Nanning, the capital of Guangxi Zhuang Autonomous Region. Delegates from some of the country's provinces, autonomous regions and municipalities discussed the Eighth Five-Year (1991-95) Development Program for the sugar-refining industry at the conference, which ended here today.

After 40 years' development, China has formed a comprehensive sugar refining industry. So far, the country has 540 sugar refineries with a combined processing capacity of 558,000 tons of sugar crops per day.

China has 1.6 million ha of land under sugar crops—933,000 ha of sugarcane and 667,009 ha of beet.

According to the conference, China will be self-sufficient in sugar supply during the Eighth Five-Year Plan period (1991-95).

1990 Major Crop Procurement, Sales

91P30110E Beijing NONGMIN RIBAO in Chinese
20 Feb 91 p 2

[Summary] In 1990 grain procurement totaled 120 billion kilograms, a 14.3 percent increase over 1989; grain sales totaled more than 85 billion kilograms, a 9.4 percent decrease. In 1991 grain procurement policies will not change, and it is estimated that sales will slightly increase.

In 1990 oil crop output was about 15 billion kilograms, a 10 percent increase over 1989; oil crop procurement totaled 2.75 billion kilograms, a 15.5 percent increase; sales were about 3.25 billion kilograms, about a three percent increase. In 1991 procurement and sales will remain at the 1990 level.

In 1990 sugar crop output was about 94 million tons, an increase of about 5 million tons over 1989; sugar output was about 5,200,000 tons; procurement totaled 3,500,000 tons, and sales totaled 4,700,000 tons. In 1991 the sugar crop area will increase 3 million mu, estimated sugar output is 5,500,000 tons; 1991 procurement and sales will remain at the 1990 level.

At the end of 1990 the number of hogs in stock was about 345 million; procurement totaled 106 million, a 5.5 percent increase over 1989; sales totaled 99 million, a 12.8 percent increase. In 1991 preferential hog-breeding policies will not change, and it is estimated that procurement and sales will remain at the 1990 level.

Guangxi 1991 Planned Grain Area

91P30107B Nanning GUANGXI RIBAO in Chinese
31 Jan 91 p 1

[Summary] In 1991 the planned grain area in Guangxi is 54 million mu, the rice area will be 37 million mu, and the hybrid rice area 24 million mu.

Hebei's Bumper Harvest, Remaining Problems Analyzed

Price, Storage, Apathy Problems

91CE0231A Beijing ZHONGGUO TONGJI XINBAO in Chinese 3 Dec 90 p 2

[Article by reporter Yuan Chengben (5913 2052 2609): "Anxiety in the Midst of Celebrating Bumper Harvest"]

[Text] In 1990 Hebei reaped bumper harvests of grain, oil crops, cotton, fruit, and vegetables. Projected yields were surpassed time after time. But when analyzing the rural economic situation at the recently convened Hebei Conference on Rural Statistics Work, agricultural section chiefs and rural survey team captains from various prefectural and city statistics bureaus first listed statistic after statistic showing a rosy situation and then expressed anxiety about dangers hidden from us in the euphoria over the bumper harvest.

The greatest worry after a bumper harvest is that cheap grain will hurt the farmer. Beginning with the summer harvest, every prefecture and city in Hebei without exception began to agitate for lower grain prices. By September grain prices hit bottom: In some places wheat was selling for only 0.6 yuan per kg, even though the state-guaranteed price was 0.8 yuan per kg. Right now grain prices are only about 80 percent of what they were at the same time in 1989. In Shijiazhuang Prefecture, the average country fair price for grain from January through September 1989 was 1.09 yuan per kg, whereas during the same period in 1990, factoring in the September price of only 0.6-0.7 yuan per kg, the average was only 0.89 yuan per kg. In Handan Prefecture the average composite price for grain was even 0.1 yuan per kg lower than that in Shijiazhuang. In major agricultural prefectures such as Hengshui, Baoding, and Xingtai, the price of wheat was about 0.7 yuan per kg, down one-third from 1989. Corn prices have dropped 40 percent in Qinhuangdao, and in Changli County and some parts of Tangshan peaches rotted in the market, selling for as little as one yuan per basket.

While agricultural and sideline prices plummeted and peasant incomes did not increase, prices of industrial

goods and agricultural production materials remained high. This resulted in a further widening of the price scissors between industrial and agricultural products. According to a Shijiazhuang survey, agricultural costs rose 7.8 percent in 1990 compared to 1989. Material costs for wheat reached 97.31 yuan per mu, up 13 percent over the previous year, whereas net profits were only 51.34 yuan per 100 yuan of production costs, down 4 percent. A survey of some peasant households in Shijiazhuang revealed that after-tax profits on wheat amounted to only 64.63 yuan per mu, and the average net income for peasants in the previous nine months was only 204.1 yuan, declining 15.2 percent compared to the same period in 1989.

Widespread difficulties in selling grain are another concern following a bumper harvest. In 1990 procurement funding problems were minor, and it was actually more a problem of grain storage than of grain sales. In many regions old granaries are aging and rundown and there are few new ones; storage space is in extremely short supply. Shijiazhuang Prefecture reported a 1990 grain yield of nearly 3 billion kg. Of the 874 million kg of commodity grain, the prefecture arranged state purchases of 435 million kg, 370 million kg were purchased through negotiation, and 170 million remained crammed into peasant holdings. According to a survey conducted in Langfang City, peasants are storing an average of 215 kg per person of wheat alone. The city's 245 million kg of effective storage space was already filled to bursting after the summer harvest and 15 million kg had to be stored in the open air. The contract quota for autumn grain procurement is 55 million kg, 19.5 million kg will be purchased at state prices rather than through negotiation, and in addition to the 8.93 million kg that will be transferred outside the province, there will be 65.57 million kg remaining for which we have no storage space. Right now authorities everywhere are buying reed mats and rushing to build crude grain depots.

Because of the storage problem, in the past few years we have been in a double bind: we cannot do without the grain, but neither can we handle so much of it. We "jump for joy" at a little bit less and "moan and groan" if there is a little more. Year after year the government is constantly "fighting fires": It is always on the go responding to crisis after crisis because there is so little room to maneuver. This year the national government formulated a special grain storage system—a sensible move, indeed. However, due to various factors many locales have not implemented the system effectively. As of November some places had not yet even begun, because nobody had set up a corresponding mechanism within the province itself, everyone was at a loss as to what to do. People say it is still granary capacity that is giving them trouble. Building granaries is not something that can be accomplished in a day or two. Winter is on the way and it is not the time for construction. Some comrades feel that under these circumstances unrestricted procurement is not necessarily a good thing. Too

much spoilage occurs when grain is stored in the open, and it would be better just to leave the grain in peasant households. However, we must think of a way to dispel peasants' fears of problems at home, or at least explain things to them clearly.

A further concern is that there is not enough momentum in agricultural growth: peasant enthusiasm for agriculture has declined. Right now the agricultural base is extremely weak; there has been no change in our dependence on nature's bounty. In many places field irrigation systems were capitalized long ago, and some of these "capital assets" lie in ruins. The bumper harvests of the last two years have resulted more from "heaven's help" than from anything else. Scientific and technological improvements hold out future hope for pushing agriculture to new heights, but for the present they are mostly promises that play little actual role in our agricultural bounty. I hope the authorities concerned will pay sufficient attention to this concern.

Because price relations are still irrational, there is absolutely no internal motivation for grain or cotton production. Right now peasant apathy toward cultivation is on the rise. A survey of Shijiazhuang Prefecture reveals that in 1990 peasants were hiring 12.2 monthly workers per mu of wheat, down 2.2 from 1989. This phenomenon is predicted to worsen in 1991. In 1990 the area planted in wheat expanded in every locale, and many people were happy that peasants remained enthusiastic about farming in a year of "cheap grain." But grass-roots level cadres worry that as arable land area shrinks it will become even harder to expand cotton farming. In some regions the expansion of wheat cultivation is a precisely a manifestation of the decline in peasant enthusiasm for farming, because it is the simplest, least labor-intensive form of cultivation and it also provides the peasant's own grain ration. This autumn there have been places where cotton was ripped out in order to grow wheat.

Another concern is that the burden on peasants is too great. This problem has been lamented over for many years, but it is growing in intensity in some areas. In Hengshui Prefecture monstrous absurdities are occurring, peasants find it necessary to obtain outside sources of money even after selling all their quota grain. Indiscriminate apportionment of expenses and excessive withholdings have suddenly left peasants unable to hold their own. In this region the average grain quota rose from 35 kg to over 100 kg in some places, and there were other places where nothing of the sort occurred and peasants actually envied those with IOU's.

"Heaven" has already granted two years of favorable weather and successive bumper grain crops. However, generally speaking we do not have a surfeit of agricultural and sideline products—in fact we have a shortage. What we call selling problems are actually storage problems, and our real selling problems are low-level selling problems. Given low peasant enthusiasm for farming and our recent inability to adjust agricultural and sideline prices by much, what we can and should do first to

guarantee a bumper harvest for next year is to truly and fully implement the agricultural support measures we already have. We must not be dazzled by this year's bumper crop. Only if we achieve "fair weather" in our agricultural policy can we hope to continue the bounty next year.

Population, Resource, Productivity Problems

VIC F0211H Shijiazhuang HEBEI RIBAO in Chinese
14 Dec 90 p 7

[Article by Guan Rongkai (4619 2837 7030): "The Basis for Anxiety In the Midst of Celebration: We Still Need To Work at Agricultural Development"]

[Text] A bumper harvest is a peasant's greatest joy, just as it is a happy event for the party and the nation. This year's bumper harvest in Hebei was characterized by three things. First, it encompassed more than 10 prefectures and cities across the province. Second, it involved both summer and autumn crops. Third, it applied across the board to grain, cotton, and oil crops alike. This is an uncommon event in Hebei's agricultural history.

Yet going beyond celebration, I feel we must look long and hard at this year's bounty and not let our emotions run away with us. I would rather regard this bumper harvest as a compensation—a reversal—of the constant fluctuation and lack of progress in agricultural production that has plagued us since 1985, than to conclude that Hebei has completely solved its agricultural problems. We certainly must not think our job is done and done well, or that our investment is more than adequate. From a developmental perspective, there are many agricultural problems still worth worrying about that require conscientious handling and gradual resolution.

1. The fourth national census results indicate that the population of Hebei surpassed 61 million people in 1990, a net increase of 8 million people over 1982, or an average growth of 1 million people per year. Arable land, on the other hand, is constantly shrinking. Hebei lost 1.27 million mu between 1981 and 1989, an average decline of approximately 160,000 mu per year. Growing population, declining arable land area, and the urgent need to increase the multiple cropping index and raise unit yields place enormous pressure on agricultural production.

2. Hebei has a seriously shortage of water resources. An analysis of the data reveals that Hebei is generally short 8 billion stere of water in a normal year and 16 billion stere in a drought year. In recent years we have been extracting an average of 2-3 billion stere more water than we should every year, and groundwater levels have dropped precipitously. As a result, some motor-pumped wells have ceased to be effective and been abandoned. Most of the water conservancy projects constructed back in the 1950's and 1960's are outmoded and in disrepair, and we need to speed up construction on current projects.

3. Agricultural labor productivity is very low. Marx once pointed out that "Agricultural labor productivity, which everyone—not only laborers—need is the foundation of the entire society." Agricultural labor productivity is the major criterion for assessing a nation's or a region's level of agricultural development. In the past few years agricultural laborers have accounted for approximately 60 percent of the total social labor pool in Hebei, yet, in terms of net value of output, agricultural labor productivity has comprised less than 50 percent of overall social labor productivity, and it performs only 16-18 percent as well as industrial productivity. This ratio has been declining since 1981.

4. Agricultural inputs are still inadequate. As total agricultural machine power and small-scale agricultural machinery has been on the increase, the ratio of parts has declined and operational capacity has dropped. The declining trend in relatively high-efficiency, medium-size and large agricultural machinery is due to the drop in collective inputs. According to a sample survey, in 1989 the start-up value of fixed assets used in agricultural production averaged only 48.4 yuan per person at the village level. In Hebei, in the four stages from the third through the sixth Five-Year Plans, the investment in capital construction on farmland declined stage by stage from 31.5 percent to 17.2 percent, to 13.1 percent, and finally to 6.8 percent of the total capital construction investment.

By 1988 capital construction on farmland had fallen to as low as 1.7 percent of total capital construction. Although the proportion has risen somewhat during the past two years, it still falls far short of what is needed for sustained, stable agricultural growth.

5. The social services system is unsound. A substantial portion of our collective economic organizations is weak and slack. We cannot get good service in the supply of chemical fertilizers, improved varieties, or agricultural pesticides; in intertillage irrigation, or in the transport, storage, handling, or processing of agricultural products. It has gotten so that peasants have no choice but to create their own "small but complete" systems. They have been unable to put together highly efficient economies of scale or specialized operations.

6. Essentially, Hebei agriculture still relies upon "nature's bounty," and as yet natural climatic conditions are beyond human ability to control. As soon as there is a drought, flood, or other natural disaster beyond our control, an agricultural crisis may arise. A "Chicken Little" complex is undesirable, of course, but it is essential for a farmer to be concerned about what weather the sky will bring.

Moreover, the problem of educating poorly schooled peasantry remains to be addressed. This will be a formidable, long-term task that cannot be accomplished overnight.

In this joyful interval of agricultural bounty, setting forth in minute detail the many agricultural problems, and

even possible crises, that still confront us might be considered unrealistic gloom to dampen our enthusiasm. However, I feel we must always keep a clear head. Agricultural development requires an optimum external environment and a stable, solid foundation. From this perspective, a developed agricultural support industry, advanced science and technology, perfected social services, ample material inputs of agricultural machinery and chemical fertilizers, stable and suitable agricultural policies, and, finally, the quality of peasant education and technology and their enthusiasm for production are all cornerstones of sustained, steady agricultural growth. When we speak of working conscientiously to enhance the basic status of agriculture, this essentially means we must make a resolute effort and expend all our energy on the things we have discussed above—on constructing the foundation of agriculture itself and laying the cornerstones of agricultural development. In the final analysis, this is a practical gauge of whether we devote serious attention to agriculture, or even of whether we neglect it altogether. It is also the source of happiness or anxiety for workers in the agricultural economy.

Hunan 1991 Crop Estimates

91P301100 Changsha HUNAN RIBAO in Chinese
11 Feb 91 p 1

[Summary] In 1991 Hunan Province plans to produce 27 billion kilograms of grain, 100,000 tons of cotton, 750,000 tons of oil crops, 552,500 tons of aquatic products, and remove 29,500,000 porkers from stock. Hunan Province has allocated 386 million yuan for water conservancy projects, 43 million yuan for agricultural technical improvements, and has increased agricultural funds by 15 million yuan.

Hunan 1991 Cotton Area

91P301101 Changsha HUNAN RIBAO in Chinese
2 Jan 91 p 1

[Summary] In 1991 the planned cotton area in Hunan Province is 1.8 million mu and output 2 million dan.

Hunan Hog Shipments to Guangdong Decline

91P301102 Hubei JINGJI XINSHIJI in Chinese
12 Feb 91 p 2

[Summary] From January to November 1990, Hunan Province shipped 1.636 million hogs to Guangdong, a decline of 584,000, or 26.3 percent from 1989. Hunan hog shipments have declined because Guangdong has increased hog output and Hunan cannot meet the demand for lean hogs.

Jiangxi 1991 Crop Estimates

91P301103 Nanchang JIANXI RIBAO in Chinese
13 Feb 91 pp 1-2

[Summary] In 1991 the planned grain area in Jiangxi Province is 55 million mu, gross output 16.25 billion, 16.6 billion kilograms; cotton area 1.5 million mu, output 80,000 tons, an increase of 25,000 tons over 1990; the winter rape area should exceed 10 million mu, oil crop output 217,000 tons, an increase of 19,000 tons over 1990; sugarcane output 2,160,000 tons, an increase of 260,000 tons; tobacco output 25,000 tons, an increase of 10,000 tons; and silkworm cocoon output 4,000 tons, an increase of 1,000 tons. In 1991 Jiangxi will remove 13,000,000 hogs from stock, and keep 1.5 million hogs in stock; total meat output will be 1,105,000 tons, and aquatic products output 320,000 tons. Net income of farmers should reach 700 yuan, an increase of 30 yuan over 1990. In 1991 agricultural funds should reach 600 million yuan, an increase of 100 million yuan over 1990.

Jiangxi Cotton Area

91P301104 Nanchang JIANXI RIBAO in Chinese
28 Feb 91 p 1

[Summary] As of 20 February, Jiangxi Province has sown 1,530,000 mu to cotton, exceeding the planned area by more than 30,000 mu.

Changing Expectations of Today's Parents

WU MU1974 Hong Kong KUANG CHIAO CHING
[WIDE ANGLE] in Chinese No 219, 16 Dec 90
pp 34-38

[Article by Li Kan (2621 0170): "Attitudes of Chinese Parents Today"]

[Text] Changes in Chinese Parents' Dreams

Since ancient times, Chinese parents have "hoped sons will be emperors" and "wished daughters to become empresses." This has continued for no one knows how many centuries. In the modern era, with the democratic republic, it is clearly no longer possible to "become emperor or empress," so they adjust to the times and readjust their goals, change the wording to say they "hope their children will be talented," that is, hope their sons and daughters become outstanding talented people in society.

With the enormous changes in politics, economy, culture, and ideology in Mainland China in the last few decades, for parents the standard of "hope children will be talented" has undergone several changes.

One popular jingle went

In the fifties become a worker, in the sixties join the Army, in the seventies get a diploma, in the eighties study abroad and get gilded.

Why was this? It becomes clear with a little explanation.

In the fifties the worker class was the leading class. Once one became a worker, "Hey, we workers have power!"

In the sixties, beginning with learn from Lei Feng to the later Great Proletarian Cultural Revolution, the Army was the "pillar of the dictatorship of the proletariat" and the country's people wanted to "learn from the PLA [People's Liberation Army]." Thus, at the time, not only "once you joined the Army your whole family shared the glory," but for many people, if one served for several years, being assigned work or getting work was no problem and was a good shortcut on the "twisting path to wealth."

From Worker, Soldier, Diploma Holder To Getting Gilded Abroad

The early seventies began with worker, peasant, and soldier students "going to college, running college, remodeling college" and ended with the Cultural Revolution's "diploma fever" appeared after Mainland China formally and comprehensively reinstated college entrance examinations and graduate student examinations. At that time, when recruiting workers and cadres or promoting or selecting the leadership "candidate selection," those who were "uneducated" and without diplomas would no longer do, one had to "see the papers." So a "diploma fever" appeared all over China overnight.

In the eighties, with the rural contract system and reform and relaxation, "old No. 2 (the peasant) divided the fields, old No. 9 (the intellectual) flew sky high, old elder brother (the worker) was set aside and those of dubious character went fishing for money." In addition, the upsurge of "the fever of everyone going into business" and the unfairness of social distribution, "a scalpel is not as good as a razor" and "building atomic bombs can't compare with selling tea eggs" led many people to think that learning had once again lost its value, and the "diploma fever" gradually cooled down a great deal. In the clamor of reform and relaxation, a "go abroad fever" swept China, beginning with frequent visits abroad of leadership officials at all levels. Many Chinese established "world contacts" and studied abroad, pursued advanced study, got gilded, visited relatives, and participated in other activities (that is, "went fishing in the world"). Some people thought it doesn't matter if I finish the course of study or even go back, at least in the end I can learn something useful (at least become familiar with a foreign language) or earn some money that people in China couldn't earn in several generations. And if this doesn't help, at least I'll have an opportunity to "widen my horizons" and see the world. Thus, it is not surprising that the current phenomenon of "if only one person goes abroad, the matchmakers beat a path to his door" has appeared on the mainland.

Above is the state of mind of many parents on Mainland China at the end of the eighties and their "standards" of "hoping their sons will become talented."

Now, as we enter the second year of the nineties, what is the current state of mind of Chinese parents?

State of Mind of the Nineties

A family education researcher in Tianjin recently conducted a survey of some families in Tianjin Municipality and rural areas. The subject of the survey was household heads with children between the ages of seven and 14. A total of 1,183 were surveyed and the results are very interesting.

The survey discovered that Tianjin parents were not entirely unanimous in their standards for hoping their children would "become talented." 39.8 percent of household heads hoped their children would become "specialized technicians," 19 percent hoped they would become "health care givers," 15.3 percent hoped they would become "cadres and enterprise managers," 7.5 percent hoped they would become "workers," 7.1 percent hoped they would become "teachers," but only 0.8 percent, less than 1 percent, of all the household heads surveyed hoped their children would become "peasants."

This means that fewer than one in a hundred household heads now "hope their sons would become peasants." For a country like Mainland China, which is still an agricultural country and still has more than 800 million people living in rural areas, this is truly one great contrast.

Teaching, which is "glorious" in the eyes of household heads today, is second lowest. This is identical with the results of a 1988 survey in Shanghai, where, of 24 "popular occupations," only "teacher of young children" is relegated to last place. In another survey, "peasant" and "teacher" were not even on the list. After "peasant" "was put aside," the glory faded and its position in this survey had fallen to third from last, only 0.4 percentage points higher than what the people called a most "unrewarding profession." The two had about the same "attraction" for today's parents, fewer than 10 percent.

What sets one thinking in particular is that, totaling the results of this survey, when planning the future for their "darlings" parents who hope their children will become workers or peasants, that is, choose occupations as physical laborers, make up only 8.3 percent, while the remainder, that is, over 80 percent of the people, hope their children will engage in mental labor and become "white collar" workers. Why is this so?

Young Peasants Will Continue To Move to the City: Escaping "Agriculture"

There is a Chinese saying, "Water flows toward the low spots, people flow toward the high spots." People wish for what they lack or already have but are afraid of losing. According to the current philosophical viewpoint, the economic foundation determines the superstructure, people's economic situation determines their political and social position. Thus, the state of mind of most Chinese parents now is that the word "benefits" is right in front of them and they have the economy in mind.

First, let's talk about peasants. China has been an agricultural country since ancient times and for many dynasties "agriculture has been the basis" and "stress agriculture, deemphasize commerce" has been vigorously promoted. But the result is that the peasants, who are the overwhelming majority in China, have always been at the lowest level of Chinese society and their income has been meager. The best evidence is such popular lines as "Hoing the grain in the midday sun, their sweat falls to the ground, who knows that the food in the bowl that every grain comes with pain"; "the peasant's heart is a bowl, the children of high officials wave their fans."

Although the situation in China's villages in the past several decades is very different from ancient times, the economic income of the peasant is still the lowest in society, but agricultural labor is basically as strenuous as in ancient times. It still relies mainly on hard labor and the vagaries of nature. According to figures made public by China's State Statistical Bureau, in the past few years the per capita net income of Mainland China's agricultural population is only about one-half the income of the urban population for the same period. In 1989, Mainland China's agriculture reaped a bumper harvest and the per capita net income of the peasant reached RMB [renminbi] 602 yuan, in 1990 it rose to about 677, which is the highest level in recent years. But this figure is not

only half the per capita income of today's urban population, but at the current exchange rate this is only \$127.80, an average monthly income of \$10.61. There is an old saying in China's rural areas, "Of all the rural occupations, farming is the worst." In the past few years, for a variety of reasons, many abnormal phenomena of a "seller's market" (agricultural production materials such as chemical fertilizers, pesticides, and some industrial goods for daily use are hard to sell) and a "buyer's market" (it is hard for peasants to sell such agricultural sideline products as grain, oil, pigs, and fruit), issuing IOL's and peddling from a handcart have also generally appeared in China's rural areas and the peasants' burden has become heavier daily. In addition, prices have been rising every year so that yesterday's "price scissors" of industrial and agricultural products have now become "fire tongs" so that actual peasant income has declined. All this not only caused the peasants' initiative to farm to decline considerably, but even more drove them to want to find ways to leave the land and escape farming. That "a floating population of millions goes to Guangdong, large groups of people from the countryside surge toward the city" testify to this.

However, the current tide of "people from the countryside surging to the city," just like "people in the city trying to get out of the country," is constrained by many conditions—for example, household relationships, food supply, opportunities for employment, and so forth. Due to improvement and rectification now, capital construction has been cut back and it is even difficult for people in the cities to find work, not to mention the peasants who are of lower quality. This has stymied the dreams of many peasants who want to give up farming and go to the cities. In addition, in the villages such things as schools, advanced study, medical care, culture, recreation, sanitation, and quality of life are far inferior to those in the city, but it will be very hard to make great changes in them in the short term, which makes a significant number of peasants, especially young peasants, unconvinced, impatient, and restless. Many peasant family children and young peasants say, "Living in the village we're at a disadvantage! Just let us escape farming and let us do what we want!"

Thus, in this survey, it is to be expected that the number of family heads who hoped their children would become peasants was less than 1 percent.

Teachers' Salaries Are the Lowest Level of the "White Collar Workers"

Let's talk about teachers. The low level of compensation for the teaching profession in Mainland China today is exceptional in the world. Although in the past 10 years China has repeatedly talked about vigorously improving teachers' salaries, progress has been very slow. According to surveys by relevant departments, in 1980 of all the occupations (except for peasants who do not draw wages) in Mainland China the wages of elementary school teachers were in last place, while the wages of middle school teachers were in next to last place. The wages

compensation of China's middle and elementary school teachers is the lowest of all the "white collar workers" in China.

According to surveys, in 1985, the per capita wages of employees of the Mainland China system of ownership by the people were RMB 1,239 yuan. At the time, per capita wages of various industries were as follows: construction surveying, 1,556 yuan, communications and transportation, 1,452 yuan, industrial enterprise, 1,285 yuan, public service, 1,234 yuan, finance, 1,216 yuan, science, education, culture, public health, 1,182 yuan. This demonstrates that the wages of teachers are still the lowest, not only are they 374 yuan lower than the highest industry in the country, but they are also 57 yuan lower than the average income of employees nationwide. Thus, people were saying at the time: "The very low income of teachers is 'holding back' the average wages of us Chinese workers!"

By 1987, the average monthly wages of teachers in Mainland China were: elementary school teacher, 86 yuan (RMB), middle school teacher, 88 yuan; university teacher, 110 yuan. The per capita monthly wages of university, middle, and elementary school teachers works out to only RMB 94.7 yuan, which is a total per capita annual wage of 1,136 yuan. This is still 46 yuan lower than the per capita annual income of 1,182 for science, education, cultural, and public health employees nationwide in 1985.

In 1988, surveys in such places as Hebei, Guangzhou, Shanghai, and Beijing discovered that teachers' wages were still in last place. In Beijing, for example, the per capita monthly wages for employees in various industries there at the time were:

Construction, 220 yuan, commerce and food service, 190 yuan, industrial enterprises, 188 yuan, public service, 187 yuan, communications, posts and telecommunications, 183 yuan, culture, physical culture, and public health, 176 yuan, scientific research, 157 yuan, education, 136 yuan, organizations, 128 yuan.

That is, at this time the per capita monthly income of teachers was only 8 yuan more than the lowest organization cadres, but 84 yuan less than the highest industry, and what is more, it is a full 38 yuan lower than the 174 yuan per capita monthly wage of employees of the various industries in the Beijing region at the time. One can imagine the long period of generally low teacher compensation in China.

Above is only the overall average income of Mainland China's teachers and in many old, minority, border, and poor regions (old means old base areas, minority means minority nationalities areas, border means remote border areas, and poor means poor and backward areas) the teacher compensation that is below average is even more "the valley in the valley." For example, in some poor villages, the wages of teachers in middle and elementary schools run by the local areas are only about RMB 20 yuan per month, and today, now that prices have risen so

high, teachers have trouble supporting even themselves. Thus, there is a popular saying going around in the villages: "From a distance he looked like a refugee, and when he got closer he seemed like a beggar, but when I asked in detail, I found out he was a village teacher." This shows the miserable conditions of teachers today, especially rural teachers.

The very low teacher compensation, unfair social distribution, and serious disparity between the income for intellectual and physical labor have led to the depreciation of knowledge, a resurgence of "the theory of the uselessness of education," and the abandonment of study by a large number of students, so that teachers have abandoned education in great numbers. According to incomplete statistics, between 1984 and 1989, a total of roughly 44 million persons dropped out of middle and elementary schools, an average of more than 7 million persons dropping out of school each year. But the situation of teachers abandoning teaching is also very serious. In the Baoding District of Hebei alone, in a few years over 1,500 teachers changed careers, the majority of whom were middle-aged and young mainstay teachers. In Liaoning Province, in just a few years more than 6,000 middle school teachers—half the province's total number of mainstay teachers—either took early retirement or left the profession. In 1988, 853 teachers in Ningde District of Fujian quit teaching, causing 148 schools in the district to close temporarily and leaving 3,000 students with no schools to attend. This incident shook up the entire country.

When many teachers try wholeheartedly to change careers or "don't really have their hearts set on teaching," when many normal school graduates would rather be punished or be unemployed than report to school, when China's education and administrative departments must adopt forceful methods and administrative measures to "surround, pursue, obstruct, and cut off" the teacher corps to keep them from leaving the profession, how can China's parents enthusiastically "hope their children become teachers?" As one old teacher vowed, "My generation is finished, but no matter what, I will not let my children become teachers!" As another household head said, "Teach what? Hunh, I'd rather have my children sell popsicles or set up cigarette stalls than get into that messy business."

Why Is the Business Tide Receding?

There has been another popular saying in Mainland China in recent years. "The commerce road is splendid, the official road is glowing, the academic road is a black hole." This means that being a businessman or an official has "more future" than studying and becoming learned. But recently, most household heads have decided their children should become "specialized technicians" (medical personnel, enterprise managers, and ~~some~~ cadres, all within the scope of specialized technicians) but not officials or businessmen. This may seem by chance, but actually it can be called inevitable.

First, let's talk about business. In recent years in China many people have become wealthy through business, especially individual households that made people jealous and this gave rise to a national business fever rare in history of "workers, peasants, soldiers, students, cadres all open shops." In this national business fever some people became rich but even more ate up their capital and piled up debts and were in serious trouble so that many were forced to break the law and were clapped in prison. This also let people know that business was not the best occupation.

In Chinese tradition, "commerce was the least respected occupation" and merchants were looked down on—"running into a merchant was bound to be unlucky." Such ideas still have an impact on people. But compared with Westerners psychologically and temperamentally, Chinese are good-natured, respectful, frugal, and yielding and then some, but they are insufficiently adventurous and developmental. And on the ever-changing "marketplace that is a battlefield" Chinese who are used to pursuing "security" are very hesitant. In addition, China's current market economy and market mechanisms are not robust; running a business is not a matter of relying on talent and wisdom, but to a significant degree relies primarily on the "science of relationships." One must rely on influence and "paving the way with money"—the major reason that "official corruption" could run rampant in Mainland China a few years ago. This situation terrifies many who wanted to become businessmen, or it is viewed with contempt and the masses increasingly view it with disdain.

As a result of improvement and rectification, more than 100,000 companies have been closed across the country; the number of individual industries and businesses nationwide has diminished from over 1.4 million and 2.2 million persons in 1988 to over 1.2 million and 1.9 million persons now, declines of 15 percent and 14 percent, respectively. In addition, the recent capital shortage, weak market, stiff taxes, and increases in random fee levies have made individual businesses and businessmen sigh: "It's getting harder and harder to do business!" Under austere conditions, parents naturally do not want their children to engage in such a line of work in which "although it is easy to get rich, things may be turned topsy-turvy at any time."

Why Has Becoming an Official Lost Its Appeal?

Next, let's talk about officials. In China, "having power is everything" has been a "truth." And the advantages of being an official are innumerable. However, becoming an official is really not that easy. First of all, "it's easy to become an official if you've got talent and you're at court." Second, one must understand the "profound mysteries of being an official," be familiar with the "way of being an official" then one can more or less get to the source, turn misfortune into good luck, and advance rapidly in one's career. Otherwise, right to the end one

might be just a minor official or even commit some unintentional "error" in midcareer and be fired and never again employed."

Conditions for being an official in Mainland China today seem even "harsher" than in the past. Someone who wants to become an official must be "revolutionary, youthful, educated, and professional." But at the very minimum, one must also have "ideals, virtue, knowledge, and an education." That is, someone who wants to become an official not only must be in the prime of life and have diplomas, but more importantly must "take a firm stand," "uphold the four basic principles," "uphold reform and opening up to the outside," "be proficient in Marxism-Leninism," "be of high moral character," "be enterprising," "be full of vigor," and so on. But it is best if one is a paragon of all virtues. However it may be in reality, this is what is demanded at least in theory. One can really say that "the threshold is especially high."

Endless Meetings To Attend, Endless Documents To Stamp, Endless Documents To Read, Endless Buckpassing

So, if one manages to meet the conditions of the "four becomes and four have's" and becomes an official, is it easy sailing after that? Not entirely. Not to mention that having become an official one must "be aware of image," "be aware of impact," and "protect his position"; and, after becoming a minor official one wants to become a major official, having become a major official one wants to become an even more major official... one must rack one's brains on scheming. Seen just from the angle of the official's daily work, once one becomes an official he sinks into endless anxieties: "endless meetings, endless disputes, endless buckpassing, endless arguments, endless fence-mending, endless courtesies, endless documents to stamp, endless signatures, endless documents to read, endless toasts, endless banquets..." Not to mention that some officials "risk their lives entertaining" from eating and drinking, leading as a result to inconvenience and subsequent illnesses. Just the many "endlesses" mentioned above make many vigorous young men turn into lifeless old men; an angular pioneer can be worn down to a smooth ball by the "endlesses." The ardor of earlier days gradually cools and the grand ideals of the time vanish like smoke and clouds. As a result, they waste their youth in the bustle and repetition of an official life that helps neither others nor themselves. Some officials have gone to extremes and cursed: "Becoming an official isn't something a human can do!"

Rather Be a Rich Civilian Than a Poor Official

The salaries of today's officials are pitifully small and for many years now they have been the lowest of all occupation, in society, about the same level as the income of teachers, some even lower than teachers' wages. Thus some people have proposed "high salaries to cultivate honesty" while others say "if you want to be rich, don't become an official." Although there are many officials now who have become wealthy, most have done it

through improper means, peddling influence, or corruption and bribery, and so on. But this wealth was gotten through improper means and if it is brought to light, a light punishment would be dismissal and severe punishment would be imprisonment, disgrace, or even the loss of the official's life.

In addition, China's stress on honest government today is just beginning in depth and the masses detest corrupt officials and no longer tolerate them. Every eye is peeled, carefully watching the actions of each official. Under these circumstances, if an official uses his authority for personal gain, not only will he take more risks and have to be more covert and crafty, but he will also have to have much more "courage" and dare to risk universal condemnation. At the same time, due to incorrect party style and corruption in Mainland China in recent years, the "image" of officials, that is, of public servants and cadres, has suffered a disastrous decline in the eyes of the masses.

For this reason, although there are still many "benefits" to being an official today, at the same time, cadre compensation is generally low, many anxieties accompany being an official, and promotion is difficult. Since the image of the official still evokes "disdain" everywhere, most Chinese parents do not hope their own children will pursue government work, and this is understandable.

But many Chinese parents who fear poverty and want to become well off as quickly as possible feel that "I wouldn't trade a stall in the corner to be a county head" and that "a walk along the sea is better than being governor." The real advantages of these things naturally attracts them very intensely—"better to be a rich civilian than a poor official."

There Are Many Advantages to Specialized Technology

So what makes most Chinese household heads take aim at the hot spot of "specialized technician" for their children? In brief, primarily for the following advantages.

First, compensation is good. According to surveys in Mainland China today compensation is low for intellectuals, referring mainly to teachers, organization cadres, researchers in some scientific research organizations (especially researchers engaged in social sciences and human sciences), and intellectuals in some regional organizations, but compensation is good for specialized technicians in many sectors, such as industry and communications enterprises, construction, commerce and food service, with incomes generally exceeding that for workers who are their peers. In addition, they have more opportunities to engage in second occupations and can also earn considerable extra income by being "Sunday engineers" or engaging in outside consulting service, advising, planning, and contracting, in some cases even exceeding the wages from their full-time job.

Second, the work is steadier. That is, the future is more secure. This is because most specialized technicians are university or specialized high school graduates. On Mainland China today it is still the case that "once you enter university or specialized high school, you are a state civil servant," and not only do not worry about being unemployed after graduation, but since you are on the job, you have an "iron ricebowl," and moreover must to worry about being unemployed in the future. Also, and that, most specialized technicians are in the natural sciences and are removed from politics so, although there may be political movements in the future, the shock waves on the natural sciences and engineering and machinery are fairly weak. Thus, specialized technology can still maintain relative stability and independence and not be subjected to too much political movement. Again, whatever the changes and developments in society, the natural sciences are indispensable, and as time goes on, one can only advance and become experienced and specialized technicians will be more valuable. As the common people say, "no matter who becomes an official, he must employ us, and we can drink and eat."

Third, social position is high. In Mainland China specialized technicians are a part of state cadres, great strength and are treated as cadres. They are well known, have good reputations, and people like to associate with them ever they go. Next, specialized technicians belong to the ranks of intellectuals, are still "part of the leadership class," but also belong to the "backbone class," and support strength, so they have more right to speak than ever before. Next, today China advocates "respect for science, respect for knowledge, respect for talent," so they feel proud and elated and are glowing in their image among the masses is excellent. According to a recent survey of public opinion in the Henan province, 91.7 percent of the people felt that the image of technicians was "very good" or "good." This was 10.0 percent behind the image of teachers and 1.0 percent behind the image of business leaders, so basically they are about the same.

Fourth, they offer good opportunities to improve. Because of the various skills and knowledge of specialized technicians, they can "take to others," survive a pullback, and "work wherever." They can have developed to a certain stage of the scientific technique and pursue advanced studies, they can undertake study, engage in self-study, conduct research, do research. If they want to engage in scientific research and make a little money, they can engage in a small shop or company or they can change their occupation and go into business and take the "shiny path" of the future. They are interested in politics, if they want to become an official, they can change occupation and become an official or a leader and take the "shiny path" of the future, because in selecting leadership cadres, cadres support that they be "intellectualized and professionalized." If none of these alternatives is attractive to them, they can go back to his specialized technology. While working for a certain number of years and have made a certain amount of wages, housing and benefits, if he wants to become an official at the same level, he must be "intellectualized and professionalized" and still work for the same

Because of the many above-mentioned advantages of becoming a specialized technician, it is quite natural and understandable that many Chinese household heads today hope their children will become technical talent.

(Note: Some people have asked why Chinese parents haven't chosen going abroad as the "struggle goal" for their children. Actually, the fever for going abroad in China now is still high, it hasn't declined for some time, and it appears that this trend will continue. Many household heads and their children are now, like the Eight Immortals crossing the sea, showing their special talents and planning to go abroad. However, household heads have not clearly stated that going abroad is one of their hopes, for two primary reasons. First, going abroad is, after all, only a means and not an occupation, and even less is "a lifelong occupation." Second, for a variety of reasons and restrictions, the number of people in China today who can go abroad is still

very small and "elite." According to preliminary data of the Fourth National Census issued by the State Statistical Bureau in 1990, of the more than 1.33 billion people in China, only 238,001 persons, or 0.02 percent of the total population, are working or studying abroad now, actually only a "drop in the bucket." Chinese have always been realists, and although many household heads hope passionately that their children or even they themselves can go abroad to study and improve their abilities, earn some money, or broaden their world view, the ordinary masses, the overwhelming majority in China, are powerless to inquire about it, it is beyond their reach, or there is no way to get there. In a word, they can't get out! Thus, because of the unattainable and even hopeless conditions for leaving the country, household heads have for the moment shelved the idea and are not bothering about it, but have turned their sights to the practical, and this is very natural.)

Activists Work To Reverse Verdict on Gao Gang

91CM0309A Hong Kong CHENG MING

[CONTENDING] in Chinese No 1, 1 Jan 91 pp 21-22

[Article by Cheng Chih (4453 0037): "A 'Counter-current' Bent on Reversing the Verdict on Gao Gang"]

[Text] A group of people from the northeast is determined to reverse the verdict on Gao Gang. An underground group called "The Working Committee To Clear Gao Gang's Name" has been formed and has been very active. Its membership numbers more than 1,000 and includes retired party, political, and Army cadres as well as people from cultural, education, and academic circles.

Get Organized and Reverse the Verdict on Gao Gang

The CPC Liaoning Provincial Public Security Department disclosed recently that an underground political organization that spans the three northeast provinces—"The Working Committee To Clear Gao Gang's Name"—has been uncovered and is being investigated and tracked down. This organization was formed in 1987 and has been active since. Its goal is to reverse the verdict on Gao Gang, leader of a group once branded as antiparty. Members of the organization include retired cadres of the party, government, and Army, some high-ranking cadres still working in government organs, teachers, people from cultural and academic circles, and some college students.

A Rash of Underground Activities

This underground organization has been very active lately. Their activities mainly take the form of widespread propaganda by holding academic discussions, and, since mid-September 1990, it has been mailing pamphlets abroad, handing out circulars locally, and putting up posters. It has brazenly put up posters on the front doors of organs of dictatorship, deliberately challenging them. It was disclosed that on 23 September the following pamphlets and posters were found on the front doors of the garrison headquarters and the provincial government office on Youyi Road in Harbin: "Exonerate Chairman Gao," "Gao Gang Was a Good Leader of the People of the Northeast," "Investigate Thoroughly the Prime Culprit Who Persecuted Gao Gang," and "Emulate Gao Gang's Unyielding Spirit of Struggle." On the same day, on Stalin Boulevard and Jiefang Street in Changchun City, the following posters were also found: "Gao Gang Is the People's Pride," "Mao Runzhi Was China's Hitler," and "The Day Gao Gang Is Exonerated Is the Day the People of the Northeast See the Sun Again."

The Army and Cadres Want Gao Gang Reevaluated

The truth is that not only is the underground group "The Working Committee To Clear Gao Gang's Name" active in trying to reverse Gao Gang's verdict, but troops and cadres are ignoring taboos and taking a bold stand to try to overturn the verdict on Gao Gang and others.

As early as 1979 in Shenyang, northeast China's largest city, some troops had demanded a reassessment of Gao Gang. At that time, a deputy director of the Political Department of the Shenyang Military Region was advised to resign his post on account of the incident. In mid-October, 1990, in a military academy run by the 2d Artillery Corps, a surprise discussion of the accomplishments and mistakes of deceased CPC party, political, and Army leaders was held at a regular party member function. Many people praised Zhou Enlai, Liu Shaoqi, Zhu De, Li Fuchun, He Long, Chen Yi, as well as Song Qingling and Dong Biwu, and so on. They gave high marks to Gao Gang's liberation and administration of the northeast and affirmed Lin Biao's role, although they criticized him for his political ambition which drove him into following Mao Zedong and committing atrocities during the Cultural Revolution. The students and the teachers agreed that it was pure idealism to say that "Without Mao Zedong, there would not have been a New China" but that it was erroneous to say the "the Communist Party of China is great, glorious, and correct." The students suggested that since the CPC does not believe in God or supernatural beings, then Mao Zedong was "human," and he was indeed a dictator who had made mistakes and committed crimes, and therefore he should be criticized according to the principle of seeking truth from facts. To uphold Mao Zedong's thoughts is in essence to uphold the reactionary, dictatorial road.

Even College Students Want To Reverse the Verdicts on Lin Biao and Gao Gang

Since October 1989, Jilin University has held several symposiums on the special topic of the northeast's reemergence from darkness. During one of the discussions held in early November 1990, the students agreed unanimously that it is important to respect history and to tell the truth. They felt that the "liberation" of the northeast was Gao Gang and Lin Biao's accomplishment and definitely not Mao Zedong's. The students also pointed out that the struggle between Lin Biao and Mao Zedong during the Cultural Revolution was a factional struggle and a power struggle within the party and that it was not a struggle between "revolution" and "counter-revolution" nor a struggle between "right" and "wrong." They felt that Lin Biao's "extreme leftist" activities were in fact authorized by Mao Zedong and that everything Lin Biao did during the Cultural Revolution to a very large extent catered to the needs of Mao Zedong's political struggle and was carried out under the leadership of the Army headquarters headed by Mao. The students cited many examples to back their theory. At the meeting, some in the audience who came as visitors also expressed their opinions. They felt that Lin Biao and the gang of four should qualify as only second- and third-level offenders in the Cultural Revolution catastrophe. Mao Zedong was the true archcriminal. Reportedly, the Jilin provincial party committee also sent men to the meeting disguised as visitors, and they even tape-recorded the meeting, but when they were discovered they quickly slipped away.

Yang Baibing Showed His "Iron Hand"

An internal communique disclosed that the students in one of the military academies in the northeast often turn their regular party member activities into major political discussions. This phenomenon has caused grave concern among the pertinent departments which have taken severe measures to stop those discussions. In early November 1990, a vice principal responsible for the students' political work at a certain military academy

was investigated and demoted by the Central Military Commission and was transferred to the Nanjing Military Region's Logistics Department. Yang Baibing, director of the Political Department Headquarters, instructed that "there must never be any departure from the military academies' firm and correct political direction. Individuals that feign compliance will be transferred or dismissed from leadership posts immediately. This is the Military Commission's policy."

EAST REGION

Commentator Stresses Role of Village-Level Organizations

91C M0271B Jinan DAZHONG RIBAO in Chinese
6 Jan 91 p. 1

[Article by DAZHONG RIBAO commentator: "Enhancing the Role of Village-Level Organizations"]

[Text] Village-level organizations are the basic units of the party and the state in the countryside. They are also an organizational guarantee for deepening rural reform and building a new countryside with socialism with Chinese characteristics. This is important to the construction of village-level organizations, especially party cells which are the core of the village-level organizations, to fully mobilizing the enthusiasm of cadres and the masses, to strengthening agriculture, the foundation of the national economy, to enhancing the alliance of workers and peasants in the new situation, and to maintaining close, flesh-and-blood relations between the masses and the party and the government.

With the new situation of reform and opening to the outside world and of developing a planned commodity economy, most village-level organizations and village cadres in Shandong Province have made tremendous contributions to guiding the masses to walk the road to common prosperity, to stabilizing the overall situation in the countryside, and to developing the rural economy. Yet at the same time we must also see that, with these new circumstances, there are many problems related to construction of village-level organizations in Shandong Province, and they cannot be neglected. The major problems are: A large number of village-level organizations lack the power to attract and coalesce. Some are even weak or slack. The ideology and work styles of some rural cadres are incompatible with the new situation of reform and opening to the outside world and with the new tasks. In some places, because party-masses and cadres-masses relations are not harmonious, political ideological work and construction of a spiritual civilization are comparatively weak. As a result, some villages and townships are still very poor and their work has lagged behind. Surely solving these problems requires reorganization. However, the important, long-term matter is strengthening ideological and stylistic construction of village-level organizations and concentrating on raising cadres' and party members' consciousness of socialist ideology. This enhances their confidence about socialism, strengthens their own awareness of implementing the party's basic line and rural policies, and vigorously and intensifies the idea of serving the people from the heart.

The key and main point in strengthening village-level organizations is to develop party cells. They must be consciously sound and unswerving, develop an honest, vigorous work style, maintain close relations with the masses, and possess a down-to-earth spirit in their work.

Party cells should also be built as the solid, leading nuclei for guiding peasants to firmly follow the socialist road and to construct spiritual and material civilizations. Only after party cells are well-consolidated can other village-level organizations be developed, rural reform deepened, and economic development and overall social progress have a reliable organizational guarantee. Peasants care very much about who will be chosen as village cadres and whether they can work realistically and selflessly in the public interest. Party cells should be responsible for educating and administering to party members, and for educating, cultivating, selecting, recommending, and monitoring village cadres. Party cells should select qualified persons to hold leading posts in village committees, women's associations, militia organizations, and economic cooperative organizations. All localities should seriously study the "1991 Notice on Agricultural and Rural Work" issued by the Central Committee and the State Council. They should also study the "Proposal on Consolidating Village-Level Organizations" by the provincial party committee and the provincial government. They must really understand the spirit of these documents and implement the spirit in their real work.

Consolidating village-level organizations is important work, and should be carried out in Shandong Province this winter and next spring. We have the conditions for doing it well. We hope all places truly strengthen their leadership and strive to build village-level organizations, especially party cells—the nuclei of village-level organizations. We want village-level organizations to be strong and active collectives, full of vigor, and have authority and popular trust. They should be unified and work hard to lead the masses to build up a new countryside that has socialism with Chinese characteristics.

Rural Ideological Education in Shandong

91C M0271A Jinan DAZHONG RIBAO in Chinese
17 Jan 91 p. 1

[Unattributed "Methods and Results of Shandong's Rural Ideological Education"]

[Text] Comments by RENMIN RIBAO: China's peasants account for 80 percent of its total population, and agriculture is the foundation of the national economy. We should regard teaching socialist ideology to the peasantry as the important matter in consolidating the socialist power. Shandong Province's methods are very good, and should be studied in other places. The key to conducting socialist ideological education in rural areas is to conduct it in a down-to-earth manner. When carrying out the relevant agricultural and rural policies of the CPC Central Committee and the State Council, all localities should not engage in formalism, but should pay close attention to the actual results according to the local conditions.

RENMIN RIBAO reported that Shandong Province's provincial party committee strongly took socialist ideological education in rural areas in a down-to-earth manner.

In so doing, they eliminated some negative phenomena, raised peasants' political consciousness, strengthened the party's coalescing power, and achieved real results.

Shandong's provincial party committee began socialist ideological education in rural areas in the second half of last year. The guiding principle was to deepen patriotic, collectivist, and socialist education in accordance with the party's basic line in the preliminary stage of socialism. They closely linked education with reality, and resolved some of the current ideological and real problems of the countryside. The purpose was to consolidate the socialist front and promote rural economic development and construction of a spiritual civilization. The education was implemented in four steps. The first step involved study and education, raising people's consciousness, and unifying their thinking. The second step was to resolve current, urgent problems which could be resolved, and to do so according to actual conditions. The third step was to evaluate and appraise party members in a democratic manner, and consolidate party organizations and leading bodies. The final step was to work out plans for economic development and for building a spiritual civilization. This step also involved implementing rectification and reform measures and perfecting various systems. Presently 16 prefectures and cities in Shandong Province have begun the overall study of documents and educational propaganda based on general testing of explanation and publicizing. Counties and cities which started the education earlier are ready to solve the actual problems of economic and social development and reorganize grassroots organizations.

Shandong's rural education has several characteristics.

First, leaders at all levels pay close attention to the education. The provincial party committee, as well as the prefectural and municipal party committees, all set up leading groups for socialist ideological education. Each standing member of the provincial party committee and the province's deputy governor must contact one particular prefecture or city, giving it specific guidance. Party committees above the county level work out broad plans, compile educational materials, train educational personnel, and carry out experiments in some units. Most secretaries of prefectural and municipal party committees can concentrate on working in person at selected units. They go to villages to explain and publicize socialist ideology to the masses. In the province, 150,000 cadres have been selected to organize propaganda teams to go to the countryside and explain and publicize socialist ideology. Of these, 1,000 have been selected from departments directly under the provincial government.

Second, the purposes, requirements, focuses, and methods of the education are very clear. The general requirement is to broadly raise socialist ideological consciousness, find the road to prosperity, promote both economic development and the building of a spiritual civilization, and consolidate leading bodies, especially party cells at the grassroots level. The educational focus

is on poor and backward villages as well as influential villages. Education of party members, cadres, and young peasants is well-conducted. The socialist ideological education is combined with the reorganization of village-level organizations, so as to promote the development of party cells, which are the nuclei of village-level organizational construction. Socialist ideological education is also combined with studies of the party's constitution and with the rectification of party work styles, so as to promote party building and the construction of honest, clean governments. In order to promote the construction of village administrations and a spiritual civilization, socialist ideological education is also integrated into scientific and technological development, cultural and educational development, and into the comprehensive treatment of public security. Finally, socialist ideological education is integrated into rural economic development so as to turn the popular enthusiasm created by the education towards developing productive forces and following a road to common prosperity.

Third, socialist ideological education is conducted in various, flexible ways. All localities pay attention to the actual results of the education according to their own conditions. Shandong Province does not engage in socialist ideological education in a unified way, and thus avoids formalism and a massive, headlong rush to educate. There are many major ways to do so. Leading cadres at all levels go to the grassroots. Activities and experiments are conducted in units at various levels. Excellent party members, cadres, peasants, and units are recognized publicly. Teams which lecture on exemplary deeds make tours. Methods such as review, summary, and comparison are used in the education. Video shows are offered, and theater troupes are organized.

Fourth, policy implementation is conducted in an active and stable manner. Activities that teach socialist ideology adhere to the principles of "three priorities," "two no rectifications," and the "two no changes." These mean giving priority to ideological education, positive education, and self-education; not rectifying cadres or the masses; and not changing support for reform and opening up policies or the party's current rural policies. The problems exposed by the masses concerning the treatment of specific persons and financial settlements will be handled after organizations have concentrated on ideological study. Local party and government organizations will deal with the problems according to normal procedures and channels.

Some positive results were achieved after activities teaching socialist ideology were widely conducted.

First, the socialist and collectivist consciousness of rural cadres and the masses has been raised. By adopting methods such as "identifying changes, talking about experiences, pointing out weaknesses, and discussing future development," all localities fully utilized the great achievements made since the start of rural reform. They used these to guide party members, cadres, and the masses to further recognize the superiority of the

socialist system and enhance their confidence in socialism. The collectivist ideology which had once faded has returned. More and more people are becoming concerned with the collective, and they help the poor and others with pleasure. Peasants reflect that they are very clear about which social system, the socialist system or the pre-1949 system, is better. The party has a policy of improving people's living standards, and people should think of dedicating themselves to the country. If we do not follow the Communist Party on the socialist road, there will be no way out for us. Last year, peasants showed great enthusiasm in selling grain and cotton to the state. In some places, peasants took the initiative to repay their debts to the collective.

Second, party-masses relations and cadres-masses relations have been enhanced. Cadres at all levels carried their own weight when they stayed in the villages, and became an integral part of the community. They lived, ate, studied, and worked with the peasants. They accomplished real, good things for the peasants. They have also opened up their administrative procedures and discussed official business democratically. Such openness has promoted party building and the construction of honest, clean governments. The worry that "both cadres and the masses are afraid of being punished" has been removed.

Third, the party's power to coalesce and attract has been further enhanced. In the past, it was difficult for many village party cells to even hold a meeting. No activities could be conducted. Now party members and activists have been mobilized. Meetings and activities can be held, if they are called. Leading bodies in some backward villages have changed greatly and won back the trust of the masses after education and reorganization. Haiyang County, which conducted socialist ideological education a little earlier, reduced the number of less advanced party cells from 88 to 33. The number of inactive or semi-active leading bodies dropped from 26 to seven. The number of villages with poor public security dropped from 98 to 28.

Fourth, the general mood of society has improved. Due to socialist ideological education, a healthy atmosphere is gradually increasing in some villages that used to have many problems with social order, and the evil influence is being contained. The masses can now enjoy a sense of security. The number of rural criminal cases as well as economic cases has decreased. The comprehensive treatment of public security has been enhanced.

Fifth, new progress has been made in rural economic work and in other work as well. With socialist ideological education, rural reform has deepened, the household responsibility system has been stabilized and perfected, the collective economy has been expanded, and, based on the previous stage, "two-tier management" and

socialized services have made new progress. Some poverty-ridden villages have found the path to prosperity and to developing their economies. The growth points of the collective economy have been cultivated. Shandong Province has unfurled vigorous mass campaigns for enhancing capital construction of farmland, strengthening management of winter wheat fields, and developing a diversified agricultural economy.

Shandong Enterprise Officials Punished for Crimes

91CM0271D Jinan DAZHONG RIBAO in Chinese
18 Jan 91 p 1

[Article by Lu Ji (7627-4764): "Rizhao Exposes Corrupt Partnership"]

[Text] Because they embezzled public funds and accepted bribes, some officials of the General Urban Construction Development Corporation in Rizhao have been punished in accordance with party discipline and state laws. These officials are Zheng Shulun [6774-3219-0243], former party branch secretary and corporate manager, Dong Qinqing [5516-1987-1627] and Cai Xingbing [5591-2502-3521], former party branch members and vice managers of the corporation, Sun Fuxin [1327-4395-2450], former party branch member and head of the Personnel and Secretarial Departments, Li Zhongbin [2621-0112-2430], former head of the Accounting Department, and Yang Yongyi [2799-3057-5030], former head of the Marketing Department.

Taking advantage of their jobs, Zheng Shulun and others embezzled public funds worth 17,726.60 yuan by forging invoices and receipts between December 1986 and December 1988. From May 1988 to the end of 1989, they embezzled public funds and goods worth 2,377.37 yuan, claiming them as reimbursement for entertainment expenses. From the end of 1987 to the 1990 Spring Festival, they also accepted bribes worth 5,585 yuan. Of these amounts, Zheng Shulun embezzled public funds and goods worth 3,630 yuan and accepted bribes worth 1,635 yuan. Dong Qinqing embezzled public funds and goods worth 362.37 yuan and accepted bribes worth 2,850 yuan. Cai Xingbing embezzled public funds and goods worth 935 yuan and accepted bribes worth 1,100 yuan. Sun Fuxin embezzled public funds and goods worth 2,347 yuan. Li Zhongbin embezzled public funds and goods worth 2,443 yuan. Yang Yongyi embezzled public funds and goods worth 15,034.15 yuan. Recently, Zheng Shulun, Dong Qinqing, and Sun Fuxin were expelled from the party. Cai Xingbing was removed from his party posts, and it has been recommended that he be dismissed from his administrative posts. Li Zhongbin has been placed on one-year probation with the party. Zheng Shulun has been sentenced to 28 months in prison, with a three-year reprieve. Yang Yongyi has been sentenced to six years in prison.

Yantai Targets Youth in Anti-Crime Efforts

91CM0271C Jinan DAZHONG RIBAO in Chinese
18 Jan 91 p 1

[Article by Wen Liping (3306 4539 1627): "Intensifying the Comprehensive Treatment of Public Security by Dealing with Key Problems"]

[Text] Based on the overall implementation of the comprehensive treatment of public security, Yantai has achieved good results in containing juvenile crime and crimes caused by escalating internal contradictions. Last year Yantai's juvenile crime rate decreased 21.6 percent compared to 1989's rate. The number of cases that arose due to escalating internal contradictions and that shifted from civil to criminal cases also declined. As a result, over the past five years the crime rate in Yantai dropped below 3/10,000, and last year it dropped to 2.5/10,000 [as published]

In accordance with the new characteristics in the city's public security situation, since last year Yantai has intensified its comprehensive treatment and stressed dealing with juvenile crimes and preventing crimes caused by escalating internal contradictions. In preventing and reducing juvenile crimes, Yantai has paid close attention to teenagers' moral and legal education and has established a system for educating youths. This system requires the city to work out an educational plan, appoint full- and part-time educators, handle construction of three basic things—the front, the system, and the environment, perfect the educational system, including concerned departments, neighborhoods, schools, and families, and conduct educational activities of various types, such as reading, labor contests, public welfare work, and cultural and sports activities. Meanwhile Yantai has also further strengthened the management and education of young people who were released after completing their sentences or who committed minor crimes. Parents work units, neighborhoods, and schools have helped with education's organization, responsibilities, and measures. On this basis, some capable work units have also set up guidance bases for lost youths, carried on concentrated guidance, and effectively raised their ability to prevent and control juvenile crime. In order to prevent or reduce serious criminal cases caused by escalating internal contradictions, the municipal party committee summarized and disseminated the experience of Xiumin Township in Hailan County. Their experience was how to fully divide out and channel problems, putting them in order in advance. Xiumin uses control and guidance to prevent and resolve contradictions that frequently arise in villages—disputes concerning marriage, neighborhood relations, support for the elderly, housing construction, and economic contracts. More than 28,000 contracts have been made in Yantai. In forming a so-called mediation network, the county not only established mediation organizations at the county, township, and village levels but also developed 78,880 mediators in enterprises and villages. The city of Yantai organized two concentrated mediation campaigns. One of them was the Spring Campaign to Mediate Civil Disputes, which resolved

4,856 cases of various kinds over a span of 50 days. As a result, the overall situation was stabilized.

NORTH REGION**Differences Between Socialist, Capitalist Democracy**

91CM0265A Beijing ZHENLI DE ZHUQIU
[PURSUIT OF TRUTH] in Chinese No. 1 11 Jan 91
pp 21, 23

[Article by Cai Yirun (5591 0001 3387), member of the Standing Committee of the Hebei Provincial People's Congress: "Drawing a Clear Line of Demarcation on the Issue of Democracy"]

[Text] Drawing a clear line of demarcation between socialist democracy and capitalist democracy and drawing a line of demarcation between socialist democracy and ultrademocracy and anarchism are important topics in today's democratic political construction.

There used to be a clear distinction between socialist democracy and capitalist democracy, but in recent years, those who uphold bourgeois liberalization have been disseminating all sorts of fallacies to mislead the public, and some people have become confused in their thinking. Therefore, it is imperative that we sweep away the haze and the fog and draw a clear line of demarcation between the two essentially different types of democracy. Socialist democracy and capitalist democracy are not the same; there are fundamental differences between the two.

First, the subject of democracy and the nature of dictatorship are different. All countries are ruled by a combination of democracy and dictatorship. The only difference is that the class characteristics of those in control of the countries' political power are different and therefore the class characteristics of the democratic and dictatorship they embody are different. Under socialist democracy, it is the workers who make up the majority of the population that are in control of the country's political power. The masses of workers, peasants, intellectuals, and other laborers and patriots are the masters of the country and are the subject of democracy. Regardless of sex, nationality, race, occupation, family background, religion, educational standard, financial situation, or duration of residence, everybody may exercise the broadest kind of democratic rights in history, as equals. Only a handful of hostile elements who try to ruin our socialist undertakings are dictated to and ruled so that they cannot engage in sabotage and disruption and do as they please, and so that the people's democratic rights can be protected and socialist undertakings can proceed smoothly. Capitalist democracy, on the other hand, is democracy of the bourgeois class, which allows the minority, not the masses of workers, to control the country's political power. The bourgeoisie are afraid to tell the truth, and in the name of "all people's democracy" and "universal democracy," they act in the interest of one class and those of the masses.

Second, the economic bases and the service objectives are different. Democracy is a kind of superstructure and

is built on a certain kind of economic base. It is constrained by this economic base and in turn serves this economic base. Socialist democracy is rooted in the economic system of public ownership of the means of production. The purpose of carrying forward socialist democracy is to promote the country's stability and unity and socialist modernizations, eliminate social inequalities, and let the people share the prosperity. Capitalist democracy is founded on the system of private ownership of the means of production and exploitation of the working public. Ultimately, this system protects the private ownership system and serves the system of exploitation of the workers by the capitalists.

Furthermore, they are different in content and in form. Socialist democracy is built on the economic base of public ownership of the means of production and is characterized by the system of distribution according to work; the masses not only share the same basic interests, but they are equal politically and economically and truly have the right to manage the country, the economy, and the cultural and social undertakings. They have the right to elect and to be elected and the right to subject the governments at all levels and cadres of all ranks to their democratic supervision. In keeping with the substance of socialist democracy, we have implemented the people's congress system and the systems of multiparty cooperation and political consultation under the leadership of the Communist Party, and we have unified the different links on the principle of democratic centralism and have set up a harmonious and unanimous socialist system.

From the above, it is obvious that the content and the form (the state structure and the political structure) of socialist democracy are consistent with each other, and this is true democracy. The content and form of capitalist democracy are inconsistent with each other, and it is democracy in name but not in fact. Take election for example. In a capitalist country, as a formality, the working public may elect whomever they want and may themselves be elected. But elections cost a lot of money and therefore the candidacies are monopolized by multimillionaires and their agents who control the mass media. The poor working public in fact have no chance of becoming candidates and can only check off the names of this or that capitalist and their agents. Ultimately, the power remains in the hands of the capitalists. Data gathered in recent years show that the average U.S. Senator is worth as much as \$5 million, and 3 percent of the population who hold power control 50 percent of that country's industries, communications, telecommunications, public utility and private enterprise assets, and bank assets. On the average, each of the 21 ministers in the Japanese Cabinet is worth 1.03 billion yen. Just as Lenin pointed out, "In the most democratic country, the oppressed masses may face the following contradiction anytime, anywhere. On the one hand, there is equality in form, as boasted by the capitalists' 'democracy'; on the other hand, the proletariat and the wage slaves in fact face innumerable restrictions and conspiracies." (*Selected Works of Lenin*, Volume 3, p. 633.) From the

above analysis and comparison, it is clear that capitalist democracy is not a sumptuous meal for all to enjoy, despite the claims of those who uphold the bourgeois liberalization stand; instead, it is heaven for the rich but a trap for the masses of working people. Socialist democracy may not be perfect, and its superiority has not fully displayed itself, but it is truly a people's democracy; it is "a million times more democratic" than capitalist democracy.

We must draw a clear line of demarcation between socialist democracy and ultrademocracy and anarchism. Ultrademocracy and anarchism are the petty bourgeois idea of democracy. For thousands of years, China has been a boundless ocean for the small producers. Ultrademocracy has a vast social base here. The petty bourgeois democratic ideology is essentially different from that of the capitalists, but both defend the private ownership system and therefore they have something in common, and the former finds the latter's "universal democracy" slogan easily acceptable. Meanwhile, because the petty bourgeois class is selfish, sloppy, and undisciplined, its idea of democracy sometimes tends to be overly zealous and fanatical, as displayed in their anarchist acts, and therefore their kind of democracy is very damaging to our undertakings and is often used by the handful of reactionary elements carrying banners that are deemed "fashionable." The Cultural Revolution and the political disturbance and counterrevolutionary rebellion that broke out between spring and summer of the year before last fully demonstrated this point. The fundamental conflicts between socialist democracy and ultrademocracy and anarchism are manifested in the following areas:

1. Their democratic ideological bases and objectives are completely opposite. The ideological base of socialist democracy is collectivism, and the goal of building a socialist democracy is to let the people and the masses exercise their democratic rights as their own masters, to promote the development of socialist modernization, make the country rich and strong and the people happy, and eventually achieve communism. The ideological base of ultrademocracy and anarchism, on the other hand, is ultra individualism and egalitarianism. In the name of "democracy," they jeopardize the interests of the collective in pursuit of individual gains. Thus, what is the objective in pursuing democracy? Is it to protect the rights and privileges and the long-term interests of the people as a whole, or is it to sacrifice the nation's, the collective's, and society's interests in return for personal gains? This is the fundamental difference between socialist democracy and ultrademocracy and anarchism.

2. Their handling of the relationship between democracy and centralization is different. Socialist democracy is a system of democratic centralization, that is, it is a combination of centralization on the basis of democracy and democracy under centralized guidance. Only if there is broad democracy among the people can there be a correct form of centralization, and only if there is a correct form of centralization can there be unity in

thinking, unity in policy, unity in planning, unity in command, and unity in action with regard to the nation's political, economic, and important social matters, and only then will the masses stay in step with the nation's reform and construction. On the other hand, one distinct characteristic of ultrademocracy and anarchism is to pit democracy against centralization. They want democracy but not centralization, they refuse even the most essential kind of obedience and they reject centralized leadership. They want to say what they want to say and do what they want to do. When the socialist centralized system prevents them from getting what they personally want, they cry "undemocratic" and cook up what they call "minor solutions to minor trouble and major solutions for major trouble."

3. Their stands on the relationship between democracy and the legal system are opposite. Socialist democracy and the socialist legal system are inseparable. The constitution and the laws that are drawn up based on the principle of democratic centralization are the centralized reflection of the people's basic interests. They have supreme authority. They are the means of protecting the masses' democratic rights and are also the basis by which the people exercise their democratic rights. It is the basic requirement of socialist democracy to adhere strictly to the principles stipulated in the constitution, to exercise one's rights correctly, to fulfill one's obligations conscientiously, and to abide by the law in everything we do. Ultrademocracy and anarchism on the other hand accept only democracy but not law, freedom but not discipline, rights but not obligations. They pursue the kind of "absolute democracy" and "absolute freedom" that sets no limits and allows them to do what they want. Marx pointed out that "freedom is the right to do everything that does not harm anybody else. The limit to what one can do without harming somebody else is set by the law, just like the boundary of a piece of land is defined by the boundary markers." (*The Complete Works of Marx and Engels*, Volume 1, p. 438.) In fact, to trample on the socialist law is to trample on democracy. Thus, whether democratic rights are being exercised lawfully is also a distinction between socialist democracy and ultrademocracy and anarchism.

4. Their stands on the party's leadership role are opposite. Socialist democracy and upholding the Communist Party's leadership are united. "The most essential part of the party's leadership role in the nation's political life is to organize and support the people as their own masters." Past experiences proved that only with the party's leadership can we be victorious in our revolution and allow the people to be the nation's and society's masters. Only with the party's leadership can we guarantee the healthy development of our democratic political system toward socialism. Ultrademocracy and anarchism on the other hand are a kind of spontaneous, disorderly "great democracy" that pits giving play to democracy against strengthening the party's leadership and devotes itself to getting rid of the party's leadership. The result, as pointed out many times by Comrade Deng Xiaoping, is

rampant ultrademocracy and anarchism that destabilize and disunite the political situation, that cause the four modernizations to fail, and bring China back to a state of confusion, disintegration, retrogression, and darkness. Thus, whether it upholds or opposes the Communist Party's leadership in the democratic political system is the touchstone that distinguishes socialist democracy from ultrademocracy and anarchism. Drawing a line of demarcation between socialist democracy and ultrademocracy and anarchism is basically a question of education. It is vital that we maintain close links to reality, go deep among the masses of cadres and the people to educate them about the Marxist concept of democracy, clarify the essence, the characteristics, the manifestations, and the dangers of ultrademocracy and anarchism, overcome ultra individualist thoughts, strive to guide the petty bourgeois ideologies back to the proletarian track, and promote the socialist form of political democracy.

NORTHEAST REGION

Young Cadres Advised To Remold World Outlook

91CM0285A Harbin FENDOL [STRUGGLE]
in Chinese No 1, 1 Jan 91 p 25

[Article by Li Fangyun (2621 2455 0061): "Young Cadres Should Take Conscientious Steps To Remold Their World Outlook"]

[Text] Many young cadres have come into positions of leadership in recent years under the guidance of the party's "four modernizations" cadre policy. This is the inevitable outcome of historical developments and is a sign that the party is flourishing. While these new cadres are vigorous, well educated, and have specialized knowledge, they are short on training in Marxist theory and need to remold their world outlook. Comrade Jiang Zemin has pointed out that "party members who have not mastered Marxist theory and are not adept at using the correct stand, viewpoint, and method to analyze and resolve issues, not only cannot play their proper roles, but are even less likely to become qualified party leaders." Marxism-Leninism-Mao Zedong Thought is the proletarian world outlook. They are based on revealing the inevitable demise of capitalism and the inevitable triumph of socialism and communism, and have the most complete, advanced, and scientific world outlook in the history of mankind. It is of key long-range significance to the great struggle for socialist modernization that young cadres establish a proletarian world outlook and adhere to the proletarian stand.

A proletarian world outlook is not developed and acquired spontaneously, but evolves only through the conscientious study of Marxism-Leninism and Mao Zedong Thought, and the use of their scientific stand, viewpoint, and method to guide and standardize ideas and actions and remold the nonproletarian world outlook and methodology. No one is exempt from this. The feeling that exists among some young comrades, that

they have made a systematic study of this in school and further study would be unnecessary repetition, is wrong. While academic study is a good foundation, it is very inadequate for working in society and after coming into positions of leadership in particular. Moreover, as academic study emphasizes theoretical knowledge and has not been tested in complex social practice, it is fundamentally different from study that is combined with practice in real work situations. Marxist theory is a guide to action, not dogma. Marxist truth can be genuinely mastered only by combining the study of Marxist theory with the resolution of one's own deep ideological problems, conscientiously adhering to the truth, correcting one's errors, and constantly remolding one's subjective world in the process of changing the objective world.

The most crucial issues in studying Marxist theory to conscientiously remold one's world outlook are to take a proletarian stand and to maintain revolutionary steadfastness. The issue of one's stand has been rarely mentioned in recent years, which seems to be due to having "taken class struggle as the key link" in the past, and is a mistake. A comprehensive survey of the changes in the international and domestic macro- and microclimates shows that history invariably unrolls in a winding form. Since World War II, international monopoly capital has changed the form of foreign aggression and the domestic relationship between labor and capital, and certain developed capitalist countries have achieved considerable socioeconomic and scientific developments and a certain amount of prosperity. Certain socialist countries have carried out reforms one after another, and certain spectacular new changes have occurred recently in some socialist countries in particular. While China has achieved remarkable socialist success in a decade of reform and opening up to the outside world, there are still many new issues that must be resolved and many new difficulties that must be surmounted on the road ahead. In particular, we are still faced with a long and complicated struggle against the "peaceful evolution" strategy of international reactionary forces and against bourgeois liberalization. This shows that the replacement of capitalism with socialism is going to be a long

historical process. In order to make a scientific judgment of this tortuous and complex process, it will not do to rely simply on one's own intelligence and limited knowledge, but it will be necessary to rely on the powerful ideological weapons of Marxism to dissect the various issues facing us, take a firm proletarian stand, and use the fundamental interests of the proletariat as the criterion with which to judge the essential rights and wrongs of all social phenomena. In this way, our faith in the inevitable triumph of socialism will not be shaken by immediate difficulties or setbacks, and we will not feel at a loss about the direction of historical development because of the current prosperity of capitalism in the West.

Since the Third Plenary Session of the 11th CPC Central Committee, our party has persisted in the basic line of "one center, two main points," and achieved huge successes in all areas. While our successes can be attributed to our persisting in this line, our mistakes and problems were usually caused by deviations from it. What caused these deviations? They can be traced only to our world outlook. Some people have broken with the proletarian political stand, deviated from the four basic principles, misinterpreted reform and opening up to the outside world, and sided with bourgeois liberalization in the two stands on reform. Others have not stood the test of reform and opening up to the outside world; they turned a blind eye to "peaceful evolution," departed from the proletarian political stand, abused their power for personal gain, became morally degenerate, took a stand that is diametrically opposed to fundamental proletarian interests, and were condemned by the people. Many profound lessons show that the basic socialist modernization problems for our young cadres are to persist in remolding their world outlook, to maintain a firm proletarian political stand, and to adhere to a scientific methodology. We should fully understand our historical mission, by studying more conscientiously, adhering to the principle of combining theory with practice, studying for the purpose of application, and combining creative thinking with creative work in order to remain loyal Marxists.

Interview With Gen Chiang Wei-kuo on Unification

91CM0223A Hong Kong KAI FANG (OPEN MAGAZINE) in Chinese No 49 15 Jan 91 pp 40-43

[Article by Chin Chung (6855 6988) in "Taiwan Situation" column "Chiang Wei-kuo Discusses Unification Strategy—Interview With Gen Chiang Wei-kuo, Director of the China Strategy Institute"]

[Excerpt] *Editor's note: On 29 December General Chiang Wei-kuo (5592 4885 0948) granted an interview to the editor in chief of this periodical. The general gave his views on the unification of the two sides of the strait, the Taiwan independence movement, a Chinese Communist armed attack on Taiwan, and other issues. Mr. Li Cheng-chung (2621 2973 0022), deputy director of the institute, was present at the interview.*

[KAI FANG] As we were about to enter the last decade of this century, the government declared that in 1991 it would end the period of mobilization for suppression of rebellion. As a statesman profoundly concerned about the country's unification, do you feel there is new hope for it?

Chiang Wei-kuo: The question is well put. Whether the phrase "mobilization for suppression of rebellion" is apt is not the heart of the matter. But we still need a "psychological mobilization" that is different from the mobilization of the past. The old concept of mobilization for suppression of rebellion must be abandoned, and a new concept of this mobilization must be put in its place. The new mobilization for suppression of rebellion means uniting the two sides of the strait, establishing a new psychology of "mobilization," and taking new actions for "suppression of rebellion." The objective to strive for is the attainment of a common country and the founding of a new China.

[KAI FANG] In the new suppression of rebellion, what rebellion is to be suppressed?

Chiang Wei-kuo: The new "rebellion" is the obstacle to the new objective and concept, and it must be removed! This is the new suppression of rebellion. Our concept is conformable and consistent. I do not approve of the past situation in which the two sides of the strait were hostile to each other and had the objective of doing away with each other. Therefore, talks must be held to seek a common understanding, because only by having all the ideas and systems with regard to this obstacle become the objective for achieving a breakthrough in unity can we achieve unification. Therefore, those who put up an obstacle to the common understanding have become our common enemies.

[KAI FANG] Will you please talk a little about what common understanding is being sought?

Chiang Wei-kuo: The common understanding that I emphasize is, first of all, that we are Chinese and that there should be only one China.

Those Who Oppose One China Are Public Enemies of the Two Sides of the Strait

[KAI FANG] Why do you put particular emphasis on one China?

Chiang Wei-kuo: Chinese on the two sides of the strait and in various places throughout the world all recognize that they are Chinese and that they need one China. In one China they will unite and cooperate and be bound by a common destiny. Internally they will enjoy peace and prosperity, externally they will be strong, stand on their own feet, and not be bullied by anyone.

[KAI FANG] Please provide examples for purposes of demonstration.

Chiang Wei-kuo: In Spain in the past some people did not want to be Spanish. They went to Central America and South America, where they founded many Latin countries. We were glad to see they succeed in doing this. However, there are people today who do not consider themselves Chinese, but who want to sear out a piece of land on China's territory and establish their own country. This is not a separatist idea, it is a rebellious idea. No country would permit such an action, which would be equivalent to invading our territory, occupying part of it, and founding a new country! Therefore, from the angle of the concept brought about by the Chinese people's need for one China, the rebels who would sell out China have become public enemies to both sides of the strait—common enemies. We need not worry every day about seeking a common understanding on this point, because this common understanding already exists. The talks in the future between the two sides should not be antagonistic. If cooperation for the common interests of China is recognized to be the strategic basis of the talks, they will be simple, provided that in the talks tactical and technical questions on division of work and cooperation are discussed.

[KAI FANG] You once mentioned three common understandings. What are the other two?

Chiang Wei-kuo: The second common understanding is to achieve a good life for all Chinese people, or at least to give them the opportunity to live well!

[KAI FANG] By the public enemy you mentioned in the first common understanding, did you mean the "Taiwan independence movement"? And isn't the obstacle to the second common understanding the mainland's social system?

Chiang Wei-kuo: Exactly! You are completely correct. On the mainland—this big family—the unambiguous concept and theory and the unambiguous system and administration are obstacles to the opportunity for us Chinese people to have a good life! We must surmount these obstacles. The focus of the former is on the Taiwan region, the focus of the latter is on the mainland.

However, with the achievement of this common understanding there will also be formed a common mission, which the two sides should cooperate in fulfilling.

[KAIFANG] Then what is the third common understanding?

Chiang Wei-kuo: It is that the new China we want to found is a China able to command the respect of the whole world. It is a new China that is prosperous, strong, healthy, and happy, and that can also bring peace, not confusion, to the world! The above three common understandings constitute a new approach that I have put forward as an individual. It would be better to try this new line than to take an impassable road on which the two sides would be bogged down for 40 more years!

[KAIFANG] What are the general's comments on the Taiwan independence movement, which is now the focus of attention?

Chiang Wei-kuo: At the least the Taiwan independence movement would have the following obvious consequences. In the Qing dynasty era the Korean peninsula belonged to China, and by all ways and means Japan incited, encouraged, and supported the Korean independence movement. Then, once Korea became independent Japan sent troops to annex it. We cannot but be on our guard in view of this lesson of history! We cannot but pay attention to exactly who is supporting the Taiwan independence movement from behind the scene. From the historical lessons of the past and from all of the facts since this half century began, there is proof that it is not the hope of the Western powers to see a unified, prosperous, and strong China! There is no need to mention that they still strive constantly to get advantages in the East!

[KAIFANG] Why do you emphasize international factors and do not pay much attention to internal causes?

Chiang Wei-kuo: The unification issue is not about communism. Communist ideology changed long ago, and early on Marxism-Leninism displayed, in fact, a tendency for self-destruction. The Communist Party only borrowed it as an instrument for expanding its sphere of influence and for controlling people. What was more important was that some politically ambitious men wanted to take and keep a share of power and influence! The history of mankind proves that it is impossible for anyone to take exclusive possession of the world. Therefore, ambitious men have always found a partner with whom to carve up the world—from the rulers of Portugal and Spain, from Hitler and Japan's Young Guard—but in the end they have all been defeated. In the last stage of World War II, the United States and the Soviet Union joined hands to dominate the world. The United States roped in Great Britain and the Soviet Union, but bypassed the Republic of China, which was then fighting the War of Resistance Against Japan, and at the secret Yalta conference sold out East Europe and East Asia. Afterward, on the surface the United States and the

Soviet Union were hostile and on guard against each other, but secretly they plotted to carve up the small and weak nations!

[KAIFANG] Were the eastern strategies of the United States and the Soviet Union aimed at China?

Chiang Wei-kuo: After World War I the Western world imposed restrictions on Japan and prevented the Soviet Union from expanding. Therefore, on the one hand Japan and Great Britain were cultivated as the respective naval powers in the east and the west in order to block Soviet forces from expanding into the Pacific and the Atlantic. On the other hand, the naval strengths of the United States, Great Britain, and Japan were respectively limited to a 5.5:3 ratio. However, Japan later gradually became a "5," and the strength of its ground and air forces as well as of its industrial base grew with each passing day. The Soviet Union and the United States at the same time also saw that by means of the Northern Expedition we had completed China's unification with Nanking as the capital. The speed of China's construction was without historical precedent. The Xian Incident also showed that China had one acknowledged leader—General Chiang Kai-shek. Therefore, the Soviet Union encouraged Japan to attack China because it did not want China to grow strong, and also because a Sino-Japanese war would weaken Japan. In the first two years and more of the war, the United States constantly supported Japan with large quantities of gasoline and steel. Not until the Pearl Harbor incident did the United States wake up. The Soviet Union had encouraged Japan to attack China, but it also did not want Japan to defeat China too quickly. Therefore, at the time of the Xian Incident Stalin ordered Mao Zedong to instruct Yang Cheng-wu that the leader—China's strategist Chairman Chiang—was not to be harmed. At that time Germany and the Soviet Union were planning war, and Japan, Italy, and Germany were forging the Axis. Our chairman put aside his scruples and, shortly after the July 7th [Marco Polo Bridge] Incident, asked the Soviets to conclude a mutual nonaggression friendship treaty with China. Fearing the Soviet Army at its rear, Japan's "Kwangtung Army" in our northeast did not dare turn its full strength to the south. This move by the chairman lightened the Japanese Army's pressure on north China! Afterward he regained the initiative by starting the Battle of Sunghu, continually pushing and luring on the enemy. He forced the Japanese Army to change its line of operations, which had originally run north to south, to one that ran east to west, thereby laying the foundation for victory in the War of Resistance Against Japan! The United States and the Soviet Union instigated the Sino-Japanese War, and when China was on the verge of winning it, by means of the Yalta plot they sold out China and supported the Chinese Communist handits in their seizure of the mainland! In brief, the nations of the East are very wretched. The Western powers are unwilling to see us become powerful, and they strongly wish for a divided China, a China that would always remain divided and never be unified!

[KAI-FANG] Many people in the democratic faction on the mainland pin their hopes on a federal system solution to the problem of China's unification. Do you agree?

Chiang Wei-kuo: I don't agree. I fully understand their purpose in trying to solve China's unification problem by using a federal system to shatter the communist system and found a new China. However, in China's history a federation or a federal system has already been tried, namely, in the Xia, Shang, and Zhou dynasties. The first emperor of Qin abolished the federation to achieve unification. From then on there seemed to be too much power at the center straight up until the Father of the Republic, Dr. Sun Yat-sen, thought of the scheme of "having local autonomy with the county as the unit," so that the "state" would not be too cumbersome to be effective and so that excessive power would not be concentrated at the center. Carrying out this scheme would be advantageous for achieving true democracy and true unification. From the viewpoint of geopolitical strategy, to ensure the security and happiness of all Chinese people, China—this state—must not be divided. Geopolitically, this would be most equitable. What I call a unified nation on the mainland is the Huaxia (an ancient name for China) nation. In distribution by region I call it the peoples of the upper reaches and the people of the lower reaches of the Huang and the Yang (the Huang He and Chang Jiang), who represent the nations of the central plain and the border areas. Specifically, it is the "Han nation," which is not a nation defined by ties of blood but by ties of concepts. The first emperor of Qin burned the Taoist books and buried alive the Taoist scholars. Taoism—the Middle Way—was not restored until Han-Liu Pang overthrew the second emperor of Qin and founded the Han dynasty. The Tang dynasty enhanced the politics of Taoism and glorified it. Thus, the people of the Han dynasty and the Tang dynasty were people of Taoism. I have a book, *The Great Middle Way*, that expounds this principle. This orthodoxy of ours continued through all successive dynasties after the Han and the Tang, but was pounded and thrown into disorder by non-Han nationalities from the north. Not until President Sun Yat-sen, who had founded the "Hsing Chung Hui" (predecessor of the Kuomintang), were Taoist politics restored and the Republic of China founded. Therefore, the key to Chinese culture is Taoism. What it recognizes is that "there can be no mutual planning between those whose purposes differ" and that "if the Great Way is taken, a public spirit will rule the world," which means the Middle Way. If any part of the border areas were to become independent, it would become a landlocked country with insufficient strategic resources, and it would be bound to have little national strength. A powerful neighbor would certainly control or annex it. The peoples on the lower reaches of the Huang and the Yang would certainly, because of their position, be threatened on their flank and rear. Therefore, viewed from the angle of geopolitical strategy, I emphasize that the peoples of the upper and lower reaches depend on each other for survival, and that the mainland and the

island separated from it also depend on each other for survival. Also, the causes of the formation and extension of China up to the present time were, first, its orthodoxy and, second, the natural need for its national defense geopolitically. By holding to this rational concept and by uniting and cooperating, we can achieve long-term order and peace. This is my concept of the country as a whole.

[KAI-FANG] Since you are a military strategist, we would like very much to know your view on the possibility of an armed invasion of Taiwan by the Chinese Communists.

Chiang Wei-kuo: Please do not regard me as a one-track military "bachelor." I am a scholar who studies national and global strategy. If one were to discuss military affairs apart from politics, economics, and psychology, one would be unable to solve problems independently. In the strategy institute that I organized, at the beginning I set up four research bodies, namely, for political, economic, psychological, and military affairs. As for a war between the two sides of the strait, the Chinese Communists must have a position on it, because it would not just be a matter for a military decision. For example, if a state in the United States wanted to become independent, would the White House permit it to do so? Therefore, under the premise of one China, the Chinese Communists think of themselves as the central authority and consider Taiwan to be their province. If Taiwan were to assert its independence, the Chinese Communists, in the end, would resort to military measures to prevent its independence.

[KAI-FANG] Once a strait war breaks out, what, in your analysis, would be the results of the war?

Chiang Wei-kuo: One result of the Chinese Communists' armed aggression against Taiwan would be Taiwan's complete surrender and a total disaster for its people. Another result would be that we would put up staunch resistance. If the Chinese Communists were to decide to attack Taiwan, I believe they would be able to take the island but would pay a very high price. In that case, there would never be "one country, two systems." Would we wish this for the people of Taiwan? If the people who assert Taiwan's independence—an objective that we have already achieved—do not hold fast to this independence, what would they have gained? Therefore, Taiwan's independence must be defended, and the Chinese Communists must be made to pay a very high price to take Taiwan. Is it a good or bad thing to take the position that there is one China and that we are all Chinese? If Taiwan were taken by the Chinese Communists, its economy would be seriously damaged and reconstruction would by no means be easy. There is no need to say that countless lives and materials would be destroyed in one day. So war is absolutely not a good thing. I think that if I were in the position of the Chinese Communists, I would carefully consider the matter. Furthermore, the Soviet Union lies to the north, and at any time it could take the opportunity to make a move, so how could the Chinese Communists, in order to attack Taiwan, move their main force south? One thing I have learned from

studying strategy is to pay attention to the maxim "a small amount of capital must be invested to do a large amount of business." If one doesn't want to "sell the lives of soldiers," then the best strategic approach for taking Taiwan is to engage in political infiltration and subversion, and even to "kill the enemy by another's hand." If political means won't work then military means will be employed, and the military means will not mean good fortune for either side. Therefore, I advocate that, before Taiwan becomes independent, the two sides of the strait cooperate to stop the trend toward war. This is a strategic option worthy of our fellow countrymen's greatest attention. If the Chinese Communists wait until after Taiwan becomes independent, all that will remain will be tactical battle options. Strategy is the art of winning a victory, of winning a decisive victory by taking preventive measures. Here I want to mention in passing that if an attack indeed is made, the situation would not be like Iraq's occupation of Kuwait, because no one in the world would help us! [passage omitted]

Editorial Urges U.S. To Reexamine Trade Policy

9ICE0319A Taipei CHING-CHI JIH-PAO in Chinese
29 Jan 91 p 2

[Editorial: "The United States Should Reexamine Its Foreign Trade Policy"]

[Text] According to the analysis of the Ministry of Finance, after Taiwan promised the United States to reduce tariffs and applied the reduction to all countries, the import value and market share of U.S. goods has reduced instead of increasing, and the greatest beneficiaries of this act have been Japan and the EC nations. Officials of the Ministry of Finance pointed out that between 1978 and 1990, Taiwan and the United States had nine talks on tariff reduction. The United States asked that Taiwan reduce tariffs on 1,807 items. After weighing the actual gains on the economic relations of the two countries, Taiwan agreed to reduce tariffs on 1,314 items, about 73 percent of what the United States demanded. But according to the analysis of the actual results of the tariff reduction, after the reduction, only 32 percent of the tariff reduction items have increased their import value and market share, and the remaining 68 percent of U.S. goods have shown some decline.

Such a result may be a surprise to the U.S. Government, but we have expected it all along. In the past 10 years, the U.S. side repeatedly put pressure on us, demanding that we reduce tariffs and expand import. We once pointed out that the United States may not be the one that would benefit from the sweeping tariff reduction of Taiwan and that Japan and the EC nations may be the beneficiaries. The Taiwan authorities responsible for the negotiations of tariff reduction also expressed similar views to U.S. representatives. But pertinent U.S. personnel always thought that our side used this as an excuse to deliberately put off tariff reduction, so they frequently threatened us by erecting the big flag of the 301 retaliatory

clause. Unfortunately today's facts have proved that our worry happened to come true.

This does not mean that we are against the reduction of tariffs. On the contrary, we completely agree that import tariffs should be lowered reasonably to help our country further expand foreign trade and economic relations because in the past Taiwan's general tariff rates were indeed too high. In order to protect the growth of domestic industries in the course of economic development, we had no choice but to adopt high tariffs. But after a fairly solid industrial foundation has been firmly established and foreign trade has increased substantially, for the sake of mutual benefits and in order to improve the distribution of domestic resources and prevent the excessive distortion of domestic market, we should not continue to implement a high tariff policy. Instead we should reasonably lower tariff rates under the principle of equality and mutual benefits.

The reason why we want to comment on this issue is that we think that the United States really needs to reexamine some issues concerning its foreign trade policy. It should fully recognize and find fundamental solutions to its foreign trade imbalance problem. It should not adopt political means. It should start by finding fundamental solutions to its economic problems.

The United States is the world's greatest economic power. Its scientific and technological level and productivity have always been ahead of other countries. After the World War II, the United States had a favorable trade balance for many years. But after 1975, its favorable trade balance suddenly turned to deficits which continued to grow as years went by. What caused such a change in its trade situation? The key obviously is in the U.S. economy itself. In a nutshell, during the competition with other countries, the development rate of the U.S. economy has been slower than that of other countries. The economies of postwar West Germany and Japan, in particular, developed at a tremendous pace and gradually surpassed the United States in productivity. In the international market, many U.S. products can no longer compete with West German and Japanese products, such as steel, iron, and automobiles. The products of West Germany and Japan have infiltrated even the domestic market of the United States. Due to rapid growth, many developing countries have surpassed the United States in productivity and competitive capability in the production of some traditional products such as textile products and ready-made clothes of Taiwan and South Korea. These products have also gradually entered the U.S. market, causing the U.S. balance of trade with these countries to become unfavorable too.

Of course today the United States is still ahead of other countries in many hi-tech industries. But the United States has lagged behind in traditional industries which constitute the main frame of the manufacturing industry. Americans with insight also fully understand that the U.S. industry has become hollow, that the focus of industry has shifted from the manufacturing to the

service industry, and that a large amount of possible investment funds of the manufacturing industry have flowed to foreign countries, facilitating industrial development in other countries and creating a domestic fund shortage in the United States. Such industries developing in foreign countries will then turn around and sell products to the U.S. market. Under such circumstances, how can the U.S. foreign trade situation not be reversed? These observant and conscientious people also urged the United States to reverse such a domestic situation, saying that otherwise the U.S. economy will decline as each day goes by.

But the United States is a country always stressing free economy. Except for the Department of Commerce, the federal government never has a department or commission in charge of economic administration. Because of this, the United States does not have a general domestic economic policy, nor does it have an overall plan for the development of domestic industries and the readjustment of economic structure. Because if the government adopts such policies, it will definitely invite the criticism of government interfering the economy. During the competition with other countries, the United States cannot speed up the readjustment of its economic structure through a rational economic policy. Then how can its foreign trade situation not deteriorate day by day?

Instead of adopting a domestic economic policy to readjust economic structure, in order to improve foreign trade situation, the United States has continued to use political means to put pressures on other countries, demanding that they take up the responsibility of improving U.S. trade deficits. Such political means include demanding that other countries increase the value of their currencies, reduce tariffs, further open up domestic markets, and permit U.S. industries enter their countries and enjoy national treatment. When rejected, the United States would threaten with the 301 retaliatory clause. Taiwan is no exception. The United States has used all of these means with Taiwan in the past 10 years. Moreover, the United States often makes demands on other countries under the pressures of certain domestic interest groups and acts as a vanguard for these interest groups at the expense of ruining the image of the United States. For instance, under the pressures of U.S. cigarette manufacturers, the United States spared no efforts to break the monopoly system of Taiwan and forced Taiwan to decontrol the import of foreign cigarettes. Under the pressures of farm organizations, the United States demands that Taiwan reduce import tariffs for farm products and permit the import of farm products which are produced in large amount in Taiwan. Such a practice can not necessarily improve the situation of U.S. trade deficits, but it can undoubtedly destroy the image of the United States.

Now facts have proved that the United States does not benefit from our reduction of tariffs. Before this fact, the United States really should calmly reexamine its foreign trade policy.

Editorial on Business Opportunities in Gulf War

91CE03198 Taipei CHING-CHI JIH-PAO in Chinese
30 Jan 91 p. 2

[Editorial: "Business Opportunities in the Persian Gulf War"]

[Text] According to a report published a few days ago, some foreign trade dealers at home are optimistic about the large market that will be created by the huge demand of postwar construction of the Middle East area after the Persian Gulf War ends. They are now carrying out preparations and warm-up work. Several large banks at home are quietly planning to meet such demands of dealers. They plan to give full support to those trades which have special development futures after the Gulf War. We think that foreign trade dealers and the financial circle planning ahead to meet reconstruction needs after the Gulf War is a practice of great insight and is worth our attention.

Ten days have passed since the gulf war broke out. The current situation shows that it is unlikely to end within a short period of time. The longer the war, the greater the destruction and the postwar reconstruction demand. In addition to the soaring demand for arms and ammunition, the demand for war-related military supplies such as clothing, food, shoes, socks, and medicine will also rise continuously. Special demands like these will give an impetus to the production and expansion of related industries. The break out of the Persian Gulf War is indeed an unfortunate event which we do not like to see. But the business opportunities brought about by the war, whether they are demands during the war or demands for postwar reconstruction, have become something that manufacturers of all countries are fighting for. Our manufacturers should seize the opportunities to compete vigorously.

With regard to the business opportunities brought about by the Persian Gulf War, our manufacturers can compete to provide military supplies as well as general and special commodities needed by neighboring countries during the period of war. But they must pay attention to two things. First, we must not violate the U.N. resolution on the embargo of Iraq. Taiwan is not a member nation of the U.N. but it is still not appropriate to violate the principle of the U.N. embargo. Besides, the Taiwan Government authorities have openly announced that they support the U.N. resolution. If we violate the resolution and secretly deal with Iraq, we will definitely invite serious international criticisms and increase our problems in the political, economic, and trade relations with other countries. Second, we should be aware of the high risks and high profits and have countermeasures. Sending military supplies or other goods to a war area or neighboring area during the period of a war definitely involves greater risks than sending supplies to other areas or during a peaceful period. Because of this, price quotes, transport, place of delivery, methods of payment, and insurance should be properly readjusted in

consideration of the involvement of high risks so as to roughly balance risks and profits.

The need for reconstruction and restoration after the gulf war will be naturally enormous. Generally speaking, the demand for building materials such as machinery, cement, and reinforcing bars and general living necessities such as furniture, medical facilities, and medicine will definitely increase substantially after the war in the Middle East area. Consequently these industries and related trades will have great business opportunities. To seize these business opportunities, we should not wait till the war is over and then take actions. We must plan ahead and make advanced preparations. We should understand that timing is most important in seizing business opportunities. Timing mistakes often mean the loss of most or all business.

Reconstruction after the end of the Persian Gulf War will also create great business opportunities for the banking industry. In addition to a large amount of building materials and other commodities, postwar reconstruction especially needs a huge amount of funds. The large amount of consumption during the war, about \$500 million daily military expense of the allied forces, and the need for a large amount of postwar reconstruction funds will inevitably have a great impact on the supply and demand of the international financial market. Before the gulf war, the size of funds to be used for loans already shrunk in various U.S. banks, and banks in Germany also suffered from a capital shortage due to the large amount of funds needed for the reunification of East and West Germany. So when it comes to capital supply to postwar Middle East, the United States and Germany may be unable to do what they want very much to do. Among all advanced countries, Japan probably will be the only one that can provide a larger amount of reconstruction funds. Under these circumstances, both the government authorities and banks of Taiwan, which has the second largest foreign exchange reserve in the world, should seize the opportunities and make good use of funds to support our manufacturers in doing business in the postwar Middle East area on the one hand and strengthen the actual relations between Taiwan and various Middle East countries on the other. The government authorities in particular should try to raise Taiwan's diplomatic status in Middle East countries.

In the past, the business opportunities of the Korean war enabled Japan to rebuild and prosper amid the ruins of the World War II. The business opportunities of the Vietnam war had great positive influence on the economic growth of several Asian countries including Japan and Taiwan. Today, no matter how long it continues, the Gulf War will be extremely destructive, which is unfortunate but will bring great business opportunities to the whole world. Since the eruption of the war cannot be prevented, under this unavoidable situation, our manufacturers and banks should seize the business opportunities to expand business. This is conducive to the development of their own business and will also benefit

countries which have been destroyed by the war and raise Taiwan's status in international trade.

Ministry Authorizes Activities of More U.S. Insurance Firms

*OW 1402031391 Taipei CNA in English 0248 GMT
14 Feb 91*

[Text] Taipei, 14 February (CNA)—Five more insurance companies from the United States were approved recently by the Ministry of Finance to enter the Republic of China market this year.

This will increase the number to 19 of American insurance firms in Taiwan, 12 of which sell life insurance and seven, property insurance, a ministry official said Wednesday.

The five newly-licensed firms are: Time Insurance Company of Wisconsin; New York Life Insurance and Annuity Company, and American Security Insurance Company, both of Delaware; John Hancock Variable Life Insurance Company of Massachusetts; and the Manufactures Life Insurance Company of Pennsylvania.

Only U.S. insurance firms are currently allowed to do business in the Republic of China.

Excess Savings Expected To Hit 10-Year Low

*OW 2402192091 Taipei CNA in English 1553 GMT
24 Feb 91*

[Text] Taipei, 24 February (CNA)—The excess savings of the Republic of China will drop to 6.23 percent of GNP in 1991, a record ten year low, as a result of greater domestic demand, officials of the Council for Economic Planning and Development (CEPD) said Sunday.

CEPD officials said the drop in excess savings, the difference between gross savings and investment, indicated that the nation is able to put its domestic resources to better use.

The nation's excess savings has been on the rise since the government adopted an export-oriented policy, and reached a record high of 20.18 percent of the GNP in 1986.

The savings rate has fallen gradually as the government has moved to redress macroeconomic imbalance with the help of a strong new Taiwan dollar and a greater emphasis on imports and public investment. Statistics [word indistinct] that the excess savings rate fell to 19.19 percent in 1987, 11.55 percent in 1988, 8.52 percent in 1989, and 8.01 percent in 1990.

Exports of Electronics, Machinery Products to Japan Increases

OW2502072391 Taipei CNA in English 0246 GMT
25 Feb 91

[Text] Taipei, 25 February (CNA)—The Republic of China's electronics and machinery industries can increase exports to Japan by taking advantage of the recent appreciation of the Japanese yen, a Japanese market analysis released Sunday concluded.

The China External Trade Development Council (CETRA) analysis said that Japanese markets have absorbed more and more Taiwan-made machine tools as Japanese machinery manufacturers have been shifting to computerized numerical control products.

CETRA said, for example, six Taiwan machinery factories sent sales promotion groups to Japan and secured orders worth 800 million Japanese yen in December last year.

CETRA added that 10 leading Japanese electronics and electric appliances companies, including Toshiba, Hitachi and Matsushita have shown their willingness to increase spare part and component purchases from Taiwan and will send purchasing delegations to an exhibition of electronics spare parts and components to be held here March 11, 1991.

Government Exporting 3 Million Cartons of Bananas to Japan

OW0203021091 Taipei CNA in English 1526 GMT
1 Mar 91

[Text] Taipei, March 1 (CNA)—Republic of China [ROC] and Japanese traders agreed that Taiwan will export 3,700,000 cartons of bananas to Japan between March and June this year, business sources said Friday.

The c.i.f. [cost, insurance, and freight] price will be U.S. \$13.6 per carton, up U.S. \$2.45 from last year, the sources quoted Taiwan Provincial Fruit Marketing Cooperative officials as saying.

The first 50,000 cartons will be shipped to Japan March 5th, officials, who began three days of negotiations in Tokyo Feb. 27, were quoted as adding.

Both sides also agreed that another 630,000 cartons will be shipped to Japan during July and August. The price will be discussed in late June.

NPA Reports 22,579 Illegal Foreign Workers Apply To Depart

OW0203015891 Taipei CNA in English 1534 GMT
1 Mar 91

[Text] Taipei, March 1 (CNA)—As of the February 28 deadline, 22,579 illegal foreign workers have applied to depart voluntarily, the National Police Administration (NPA) reported Friday.

Illegal foreign laborers were encouraged to turn themselves in to police last December. Those who did so will enjoy tax benefits and be exempt from penalties, while those who failed to do so will face police crackdown and deportation.

Malaysians, numbering 8,989, account for the largest national group answering the police call. These are followed by 4,200 Filipinos and 3,111 Indonesians.

Taipei county police said 8,049 illegal foreign workers reported to them. In Taoyuan county, the number was 6,027 and Taipei city, 3,971.

NPA said that since December 1990, police have arrested 5,393 foreigners who have overstayed their visas. The crackdown, especially on those who have reported to police but then found excuses to stay, will continue, NPA added.

Problem of Vietnamese Boat People in Retrospect

91CM0239A Hong Kong TA KUNG PAO in Chinese
10 Jan 91 p 6

[Unattributed article: "The Problem of Vietnamese Boat People Does Not Look Optimistic"]

[Text] The problem of the Vietnamese boat people in Hong Kong is now 15 years old, and the direct cost to Hong Kong has reached nearly \$2.65 billion [Hong Kong dollars]. It has been a serious and difficult problem for Hong Kong society for quite some time. How should we appraise the problem of the boat people in 1990? Let us take a brief look back.

The focal point of the 1990 boat people dispute concentrated primarily on debates between the governments of Britain and Hong Kong, along with the governments of the ASEAN [Association of Southeast Asian Nations] countries, the United States, and Vietnam. The debates were over whether repatriation should be carried out and whether Hong Kong's policy of first asylum should be implemented in order to produce a new influence and effect on the problem of the boat people in Hong Kong. In conclusion, the prospects for solving the vexing problem of the boat people, who are still suffering profoundly, are neither bright nor optimistic.

Implementation of Forcible Repatriation Encounters Obstacles

In December 1989, the Hong Kong government finally forcibly repatriated 51 boat people, a move which was immediately opposed by the United States and Vietnam. The United States hypocritically raised the banner of "protecting human rights and human dignity," while the Vietnamese government also asserted that it would refuse to accept the forcible repatriation of these boat people.

In the last 10 days of January 1990, at a meeting of the United Nations National Refugee Supervisory Group in Geneva attended by representatives from the United States, Vietnam, and 26 other countries (or regions), the representatives agreed to implement forcible repatriation on 1 July. However, because the United States and Vietnam unexpectedly proposed the need for a 21-month extension, which made it impossible for those at the meeting to reach an agreement, the meeting ended in failure. The United States and Vietnam had once again formed an ironic "alliance."

British and Hong Kong Governments Vacillate

Pan Nai-hsin [3803 0035 0207] of the Hong Kong Public Security Office was present at the meeting, and stated that the government of Hong Kong still planned to carry out the repatriation as soon as possible. At the Indo-China Peninsula Refugee Meeting held in Manila in May, Britain and the six ASEAN nations reached a unanimous agreement; they issued a statement that again required repatriation be implemented by 1 July, or else the policy of first asylum would be rescinded. It also

required the United States to establish an acceptance center for the boat people within its own territory and to assume responsibility for the cost of the boat people.

In mid-June, Britain and the ASEAN countries also issued a statement to the United States and Vietnam, demanding that these countries take action as quickly as possible to relieve the pressure of the boat people problem.

In reality, the British and Hong Kong governments have not consistently taken a tough stand. After the May meeting, Ou Shih-pei [0575 1102 1014], of Hong Kong's Public Security Office, stated that it was still too early for Hong Kong to rescind the policy of first asylum. In mid-June, public declarations from high levels in Hong Kong's government also showed that the government did not speak with one voice. These indications clearly show that there is vacillation in the positions of the British and Hong Kong governments.

The most clear indication that Britain and Hong Kong yielded to pressure from the United States and changed their attitude is the following: At the end of June, before Francis Maude, Britain's minister of state, visited the United States, he continued to state that Britain was in agreement with the ASEAN countries on the tough stand of the Manila meeting. Yet during his visit, his tone began changing, and he stated that if there were no large influx of boat people, then, temporarily, Hong Kong would not need to carry out the repatriation policy.

Another example of the vacillation in the stands of the two governments, and their tendency to yield to pressure from the United States and Vietnam, occurred in early August. Fan-hsu Li-tai [5400 1776 7787 3141], a Hong Kong government official, responded to the United States' comment on establishing a category of boat people that were "not opposed to repatriation," pointing out that this was totally meaningless. In September, Britain, using the "not opposed to repatriation" method for repatriating boat people, concluded an agreement with Vietnam, and the governor of Hong Kong immediately termed this a major achievement.

Since then, the governments of Britain and Hong Kong have continued to put on an empty facade of optimism, asserting that "encouraging" progress has been made with those willing to be repatriated and with those "not opposed to repatriation." But in terms of action, the effort expended has focused only on these two types of repatriation, and in reality the effectiveness has been barely satisfactory. Near the end of the year, Lieh Ching-chih [0441 2348 1807], Hong Kong's commissioner of refugees, stated that the number of people participating in voluntary repatriation had greatly decreased. He said that there was no way to implement the "not opposed to repatriation" method, so that in the end, he could not help but be disappointed.

The Comings and Goings of the Boat People in 1990

According to figures supplied by the Hong Kong government, at the end of 1989 there were 55,724 Vietnamese detained in Hong Kong, 43,702 of whom were boat people and 12,022 of whom were refugees. At the end of 1990 there were 52,036 detainees: 43,875 boat people and 8,161 refugees. The totals for the two years are similar, with the number decreasing by 3,688 in 1990. The major reason for the drop is that quite a few refugees, 7,700 of them, emigrated to foreign countries. Thus, if foreign countries continue to maintain or increase the number of people they accept, a solution to the Hong Kong refugee problem could be within sight within the next several years. However, the problem of the boat people is much more critical; if we compare the number of boat people in the last two years, in 1990 the number increased by 173. For all of 1990, the number of newly-arrived boat people reached 6,599, including more than 2,400 newborns, so that for the whole year the actual increase reached more than 9,000, which is somewhat high compared to the last 10 years, when the number of boat people arriving in Hong Kong averaged 8,000 per year. In addition, the two efforts to repatriate boat people to Vietnam totalled less than 5,500 people repatriated. Thus, there was a net increase of more than 3,500 people for the whole year.

On the one hand, this indicates that in 1990 there was essentially no improvement in the problem of the boat people, while on the other hand, it illustrates that the results of voluntary repatriation have been limited. Each month an average of only 450 people were repatriated, which was far from the monthly goal of 1,000 announced by the Hong Kong government. This means that it is only possible to send back roughly 60 percent of the annual increase in the number of boat people in a given year. Where will a solution to the problem of the boat people interned in Hong Kong be found? Under the "not opposed to repatriation" plan, which has been implemented for several months, only 23 people have been returned, making it a failed effort. At present, nine boat people have demanded a judicial review of their cases in order to influence the implementation of repatriation.

Harassment of Interned Boat People

The boat people interned in Hong Kong have often experienced brawls and harassment, and some have tried to flee. The problem of the Hong Kong boat people in 1990, although not as critical as in 1989, is still a perplexing and serious social problem for Hong Kong. In addition, looking at current conditions and trends, it seems that there are no obvious factors in the new year that would be beneficial in alleviating or even solving the problem of the boat people. Hence, it is not easy to be optimistic about the future.

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